scotch whisky association

BUDGET SUBMISSION OCTOBER 2019

www.scotch-whisky.org.uk

#SupportScotch

@ScotchWhiskySWA

@ScotchWhiskySWA

ACTIONS SPEAK LOUDER THAN WORDS

Liz Truss @trussliz

Our tax burden is too high. We need to make arguments for tax cuts across the board, particularly those that damage growth.

9:17 AM - 11 Jul 2019

22 Retweets 91 Likes

John Lamont MP @John2Win

Important pledge to support Scotland's iconic whisky industry: @Jeremy_Hunt vows to continue 'Scotch whisky boom'

7:49 AM - 5 Jul 2019

5 Retweets 23 Likes

Ridge on Sunday @RidgeOnSunday

When asked about his spending plans and plans to cut taxes, Boris Johnson responds "as the great Tunisian scholar and sage Ibn Khaldun pointed out as early as the 14th century, there are plenty of taxes that you can cut which will actually increase your revenues" #Ridge

9:11 AM - 30 Jun 2019

254 Retweets 569 Likes

Scott Corfe @ScottCorfe

My latest @SMFthinktank blog now out: With Dry January over, politicians could do with a sober reflection on how alcohol is taxed in the UK. The current duty regime is bonkers!

1 Retweets 8 Likes

Boris Johnson @BorisJohnson

I am committed to supporting the iconic Scottish whisky industry.

2:39 PM - 12 Jun 2019

320 Retweets 1,400 Likes

Douglas Ross MP @Douglas4Moray

At questions to @ScotSecofState today I highlighted a recent report from @ScotchWhiskySWA showing the huge contribution the industry makes to the UK economy.

8:11 PM - 8 May 2019

10 Retweets 50 Likes

ScotGovEconomy

Good news for one of Scotland's greatest global exports!

Rural Economy Secretary @FergusEwingMSP: "I welcome the contribution that the Scotch whisky industry makes to the #ScottishEconomy. The industry's performance is testament to the hard work of those who work in this sector"

7 Retweets 9 Likes

David Linden MP @DavidLinden

In my constituency, I've got three cooperages, one maturation warehouse and a bottling hall. I'm immensely proud and supportive of our #whisky industry and the jobs it provides. Thank you to @BrendanOHaraSNP for his leadership of our APPG & the issues we raise with @hmtreasury

11:55 AM - 10 May 2019

9 Retweets 34 Likes

Jamie Stone MP @Jamie4North

🥃The contribution of #ScotchWhisky to the UK economy has increased 10% since 2016 to £5.5bn 📈

As the Scotch whisky industry grows we should all raise a dram to those who produce Scotland's most iconic drink.

3:01 PM - 30 Apr 2019

2 Retweets 8 Likes

David Mundell @DavidMundellDCT

Great to have a dram at conference with @ScotchWhiskySWA at conference and to hear about their record exports across the world and significant economic contribution

6:17 PM - 4 May 2019

2 Retweets 24 Likes

David Lidington @DLidington

Thank you @ScotchWhiskySWA & @Laphroaig for organising round-table with @isleofislay distillery managers. Good discussion on excise duty, local infrastructure, decarbonisation, Brexit, trade policy. Important to support scotch whisky as world-beating Scottish & UK brand.

7:30 PM - 12 Jul 2019

4 Retweets 18 Likes

FREEZE AND REFORM

This is a period of significant uncertainty for the Scotch Whisky industry. The prospect of a no-deal Brexit that disrupts access to the EU single market, and threats of tariffs in other global markets mean that now more than ever the industry needs support at home. Additionally, the 25% tariff on imports of Single Malt Scotch Whisky and Scotch Whisky liqueurs into the United States - our largest global market - will undoubtedly damage the industry, with a disproportionate impact on smaller producers.

In the autumn budget, we ask the Chancellor to ensure the spirits industry is not put at a further competitive disadvantage relative to other alcohol categories. As a minimum, the freeze on spirits duty should be continued.

The freeze on duty in the 2017 and 2018 autumn budgets both resulted in higher spirits revenue to HM Treasury. The government's own figures show that spirits revenue grew by £348m to £3,779m in 2018/19 – an increase of 10.2% year on year, making spirits the fastest growing of any alcohol category. Between February and August 2019, spirits revenue has continued to grow – up £21.7m to £1,959m, an increase of 1.1% of the same period in 2018.

As well as boosting revenue, the more stable tax environment has allowed the industry to re-invest in the UK economy. It is no coincidence that the industry has been able to invest over £500m in capital projects over the last five years at a time when there has only been one duty increase on spirits - boosting our industry's GVA by 10% to £5.5bn since 2016.

This investment has a number of upstream impacts on the economy through our supply chain – 95% of which is based in the UK. It also helps to secure and create thousands of highly productive jobs, especially in rural areas where investment and employment opportunity is much needed.

A continued freeze will also ensure we remain competitive in global markets as the UK leaves the EU. While other countries in the UK back their national industries in the tax system – France, Spain and Italy with wine, Germany with beer – the UK puts its spirits industry at a competitive disadvantage by taxing it at a higher rate per unit of alcohol than any other category and most other countries.

We should be proud of our spirits industry, led by Scotch Whisky: a continued freeze will show that we are eager to back our winners as we seek a new relationship with global markets.

In addition to freezing duty, the Chancellor should begin a process of reform of tax structures for alcohol. The Scotch Whisky industry is a proud taxpayer, but the duty system should be fair and consistent for all alcohol categories.

Since the Excise Act was passed in 1823, the tax system has not kept pace with changes in the alcohol industry. Almost 200 years later, we now have a system that allows duty on wine and cider to decrease as product strength increases, while Scotch Whisky and other UK spirits are taxed significantly more per unit of alcohol than any other category.

In this budget, we ask the Chancellor to support the Scotch Whisky industry's local employment, national investment and global success.

AT A GLANCE: THE SCOTCH WHISKY TAX BURDEN

THE CASE FOR CONTINUED SUPPORT

DUTY CUTS & FREEZES CAN DELIVER MORE REVENUE - AND HAVE!

Real-world data from HMRC shows that in the twelve months to August 2019, spirits revenue has continued to grow at a faster rate than any other category of alcohol. Continued duty support for spirits would be a win-win - more revenue for public services and greater confidence for industry to invest.

Moving Annual Total (MAT) to August 2019 shows that spirits revenue grew by 2.3%, compared to beer which grew just 0.04%, and wine and cider which saw revenue fall by 0.8% and 5.2% respectively. Between February 2019, the implementation date for duty changes, and August 2019, the HM Treasury's receipts from the spirits duty freeze have grown faster than total alcohol revenue both in relative and absolute terms, up £21.7m to £1,959m, an increase of 1.1% year on year.

The elasticities used to generate the forecasts for spirits revenue were last updated in 2014. Much has changed in the economy, industry and consumer trends since then: we therefore continue to encourage HMRC to update the elasticities.

We strongly believe that the high elasticities of the spirits category means that cuts and freezes to duty can increase revenue as it has in previous years.

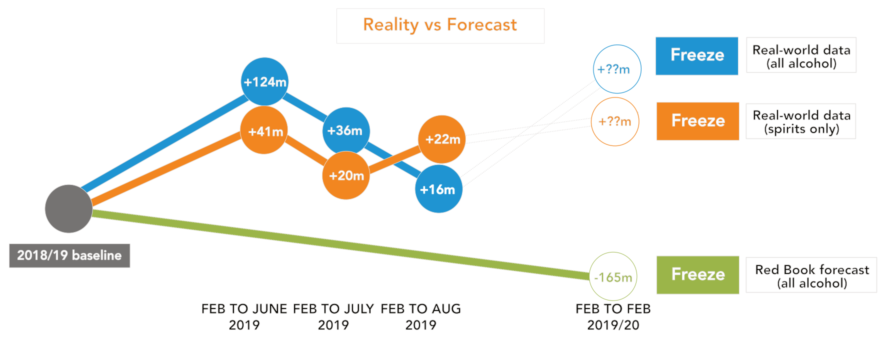
HM Treasury's treatment of spirits in the tax system over the last decade bears this out.

In the five years to 2013 excise rates were increased each year - a total increase of £6.87 per LPA. In the corresponding years, excise receipts increased £536m.

Comparatively, in the five years to 2018, spirits excise was increased by 52p per LPA. Despite this marginal increase over the five year period, excise receipts increased by over 23% to add an additional £735m to HMT revenues.

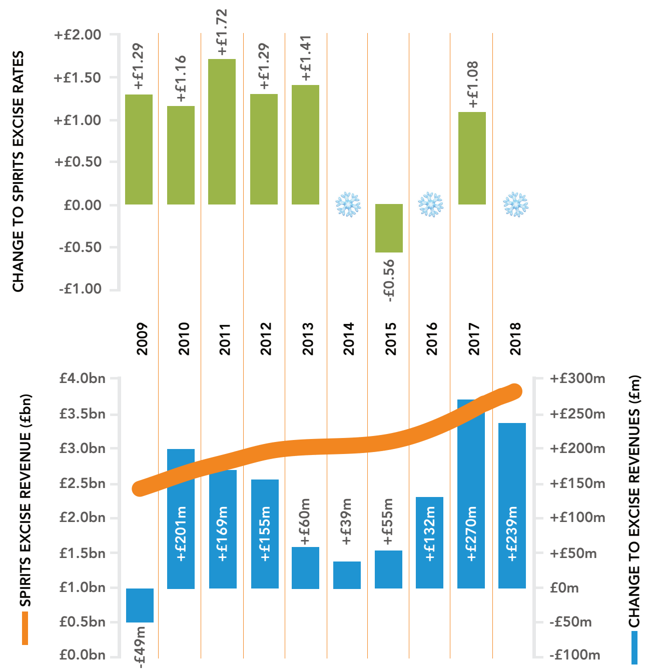
It is clear that a continued support on spirits duty can deliver more revenue for the government to spend on vital public services.

The real-world HMRC data shows that spirits revenue continues to grow at faster rate than total alcohol revenue.



SOURCE: HMRC Tax & NIC receipts, September 2019; Budget Red Book, October 2018

SPIRITS EXCISE RATES AND ANNUAL REVENUES



SOURCE: HMRC

THE CASE FOR CONTINUED SUPPORT

THE INDUSTRY INVESTS IN ITS HOME MARKET

Diageo's £150m investment in Scotch Whisky Tourism

Chivas Brother's £50m investment in world class bottling facilities

Isle of Raasay distillery providing vital employment for island communities

The Scotch Whisky industry has made major investment decisions in local communities in the past five years - it has invested more than £500m in capital projects in Scotland. It has been able to do so as a result of a stable tax regime.

We are committed to continue our investment in the communities where our distilleries, maturation warehouses, bottling hall and other industry sites are based – we can only do that when the domestic tax environment is stable and favourable, as it has been over the past five years.

The decisions made in recent budgets have meant that the industry has been able to make major investments in tourist attractions, distilleries and supply chain across the UK.

Earlier this year, a £150m investment in a new tourist visitor centre in Edinburgh was announced by Diageo. Last year Edrington opened the new £140m distillery and visitor experience at The Macallan Estate, which has been named one of the World's Greatest Places by Time Magazine. Chivas Brothers has invested £50m in a new bottling hall and William Grant & Sons has announced a £30m expansion to its Glenfiddich distillery.

In addition, new distilleries are starting up all over Scotland. Ardnahoe Distillery on Islay, Holyrood Distillery in Edinburgh, and Lagg Distillery on Arran have all opened their doors since the last budget in October 2018.

Each of these investments and new distilleries bring with them an additional boost to the economy though our supply chain - 95% of which is based in the UK.

As a result of these investments, we estimate the Scotch Whisky industry has grown its contribution to the UK economy by 10% since 2016 to £5.5bn.

We have repeatedly shown that investments in the Scotch Whisky industry through the excise duty system results in investment for the UK economy.

We ask the Chancellor to encourage and continue this virtuous circle in the autumn budget.

DID YOU KNOW ???

SCOTCH WHISKY INDUSTRY INVESTED MORE THAN £500 MILLION IN CAPITAL PROJECTS OVER THE LAST FIVE YEARS

95 PERCENT OF THE SCOTCH WHISKY INDUSTRY'S SUPPLY CHAIN IS BASED IN THE UK

THE CASE FOR CONTINUED SUPPORT

THE WORLD IS WATCHING - SET AN EXAMPLE

Budget decisions made by the UK government send a strong signal to governments overseas. This is something the Scotch Whisky industry, as a major exporter, knows only to well. The UK's current tax and regulatory environment is used in major export markets as a reason not change tax policy - hindering the industry's growth.

Consumers of Scotch Whisky are often shocked to discover that £3 in every £4 spent on an average priced bottle in the UK is collected in tax. Per unit of alcohol, this is more than any other category of alcohol.

Tax on Scotch Whisky in the UK is particularly high when compared to comparable economies around the world.

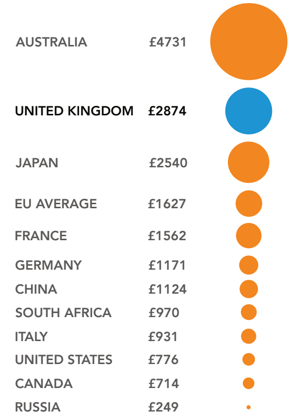
The UK has the fourth highest spirits duty rate in the EU, with only Sweden, Finland and Ireland having higher rates. Internationally, across other major producing and consuming nations, the UK has one of the highest rates of spirits duty in the world.

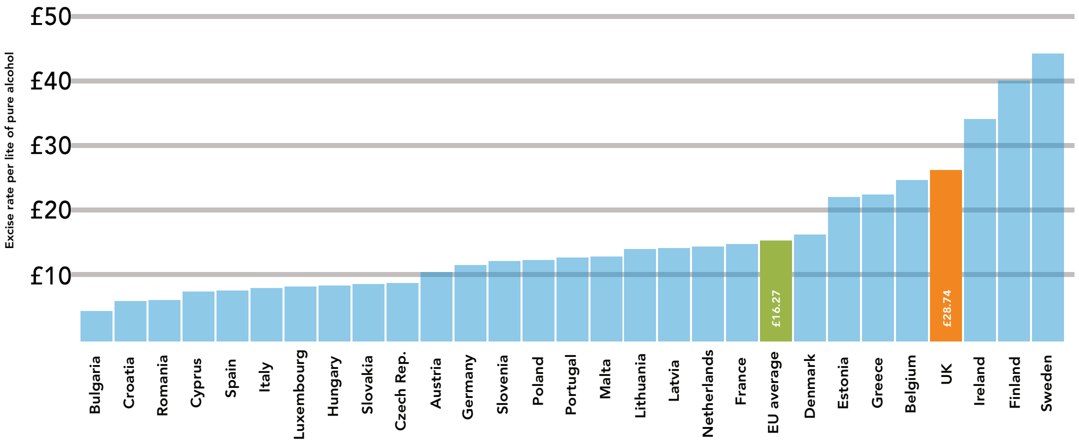
For example, the UK's tax on spirits, including Scotch Whisky, is three times higher than the tax on spirits in the United States, the second largest producer of globally marketed whisk(e)y.

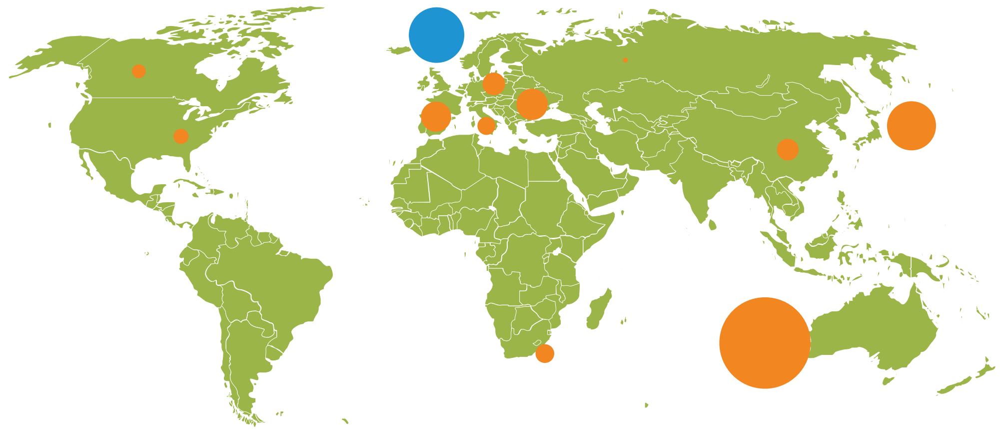
Scotland is the largest producer of globally traded whisky in the world, and produces 70% of the UK's gin. We now have a chance to set an example for markets around the world: we should be proud of our spirits industry and back it at home to succeed overseas.

SPIRITS DUTIES AROUND THE WORLD

PER HECTOLITRE OF PURE ALCOHOL







DRINKING LESS, DRINKING BETTER

The Scotch Whisky industry is deeply committed to helping ensure that those who consume alcohol do so moderately and have the information they need to make responsible choices. We also take very seriously our role to tackle alcohol related harm in conjunction with partners.

For more information on our work to promote responsible drinking visit:

www.scotch-whisky.org.uk

Alcohol consumption in the UK has been on a gradual downward trend and peaked in 2005. In Scotland, consumption is 15% lower than it was in 2007, and has continued to fall over the last five years during a period of duty freezes and cuts.

Overall the trend of sales of pure alcohol is decreasing. The distribution of sales is changing due to preference shifts, with more people choosing to drink spirits in long serves, but the overall level of drinking throughout the UK was lower in 2017 than at its peak.

The ONS survey of adult drinking habits shows the majority drink at least once a week, but the number has declined from 64.1% in 2005 to 57% in 2017.

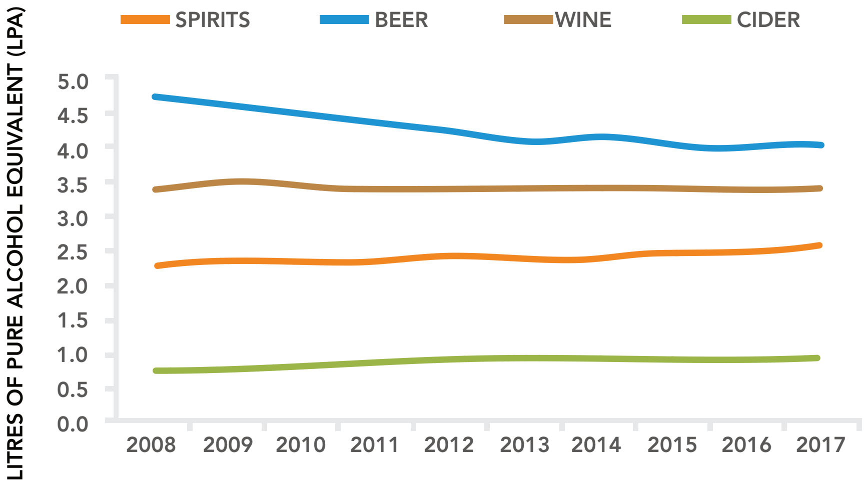
While the share of those drinking at least once per week has reduced in the last decade, this appears to be a result of more consumers becoming less regular drinkers – those who do not declare themselves as teetotal, but who did not drink in the week prior to the survey.

The proportions of binge drinkers and those who drank alcohol on five or more days a week have also experienced declines since 2007.

We therefore believe that duty on Scotch Whisky and other spirits can be frozen without having a detrimental impact on drinking habits. Consumer trends are evolving, with more choosing to drink responsibly and support our great spirits industry.

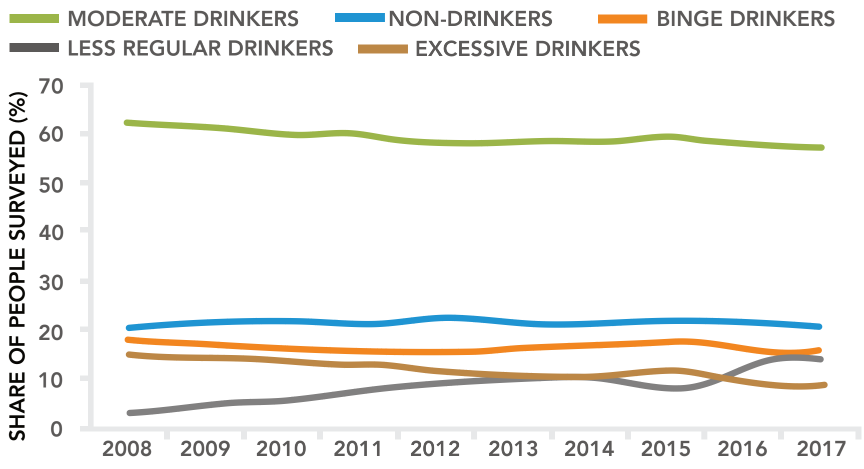
Consumers would further benefit from a clear, rational alcohol tax system that more accurately taxed alcohol on a per unit basis.

VOLUME OF ALCOHOL SOLD PER CAPITA



SOURCE: NHS Scotland

DRINKING TRENDS IN THE UK



SOURCE: Office of National Statistics

THE CASE FOR REFORM

The UK alcohol duty system is "among the most incoherent and badly designed parts of the UK tax regime", according to the Social Market Foundation think-tank.

The UK Government's stated aim of creating a "more predictable, stable and simple tax system", one that raises revenue and protects jobs and investment, is undermined by the current alcohol duty regime. It should therefore be reformed.

While this reform takes place, the Scotch Whisky industry calls on the government to freeze duty on spirits and ensure the duty disparities between categories do not increase any further.

Differences in how excise tax is calculated for different categories causes large inconsistencies. For example, on a per-unit of alcohol basis, 11% ABV wine is taxed at 27p, while 15% wine is taxed at 20p. For cider, 4% ABV product is taxed at 10p per unit, while high-strength 7.5% ABV product is taxed less than 7p per unit.

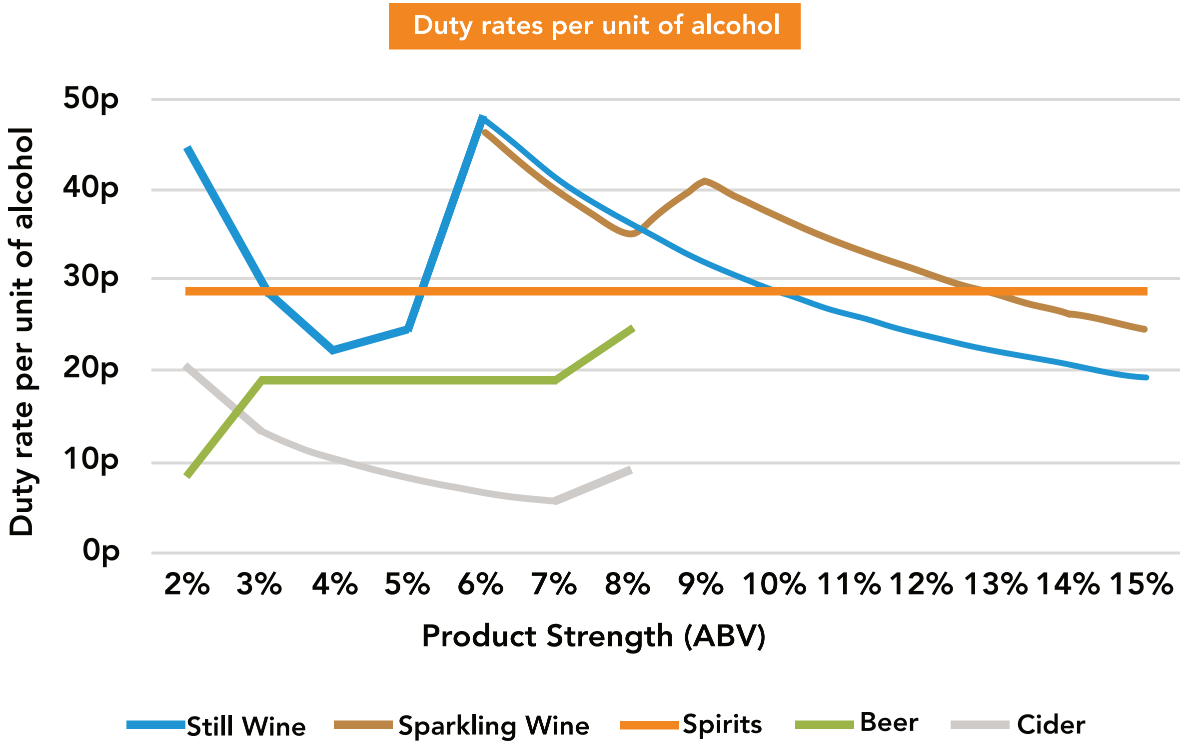
The CMOs guidelines on low-risk consumption say adults should drink no more than 14 units a week of alcohol. The guidelines do not discriminate between categories of alcohol, but the tax system does.

As a result, consumers who choose to drink 14 units of cider a week, as per guidelines, are taxed £1.13, those who choose to drink 14 units of wine are taxed £3.36, while those who choose to support Scotch Whisky are taxed £4.06.

Spirits, including domestic products such as Scotch Whisky, are taxed 256% higher per unit than cider and 16% higher than wine.

There is now an opportunity to create a more coherent, reasonable and effective alcohol duty regime in the UK.

Indeed, a simplified and fairer system based on robust economic reasoning is expected to increase competitiveness. As such it will be beneficial to both consumers and jobs in the UK and it will remain an important driver of tax revenue.



TAX FIT FOR THE 21ST CENTURY

The UK's current alcohol duty system is broken. It exhibits large differences in how excise tax is calculated for different categories which causes significant differences in the duty applied to different alcohol categories and sub-categories on a per unit of alcohol basis.

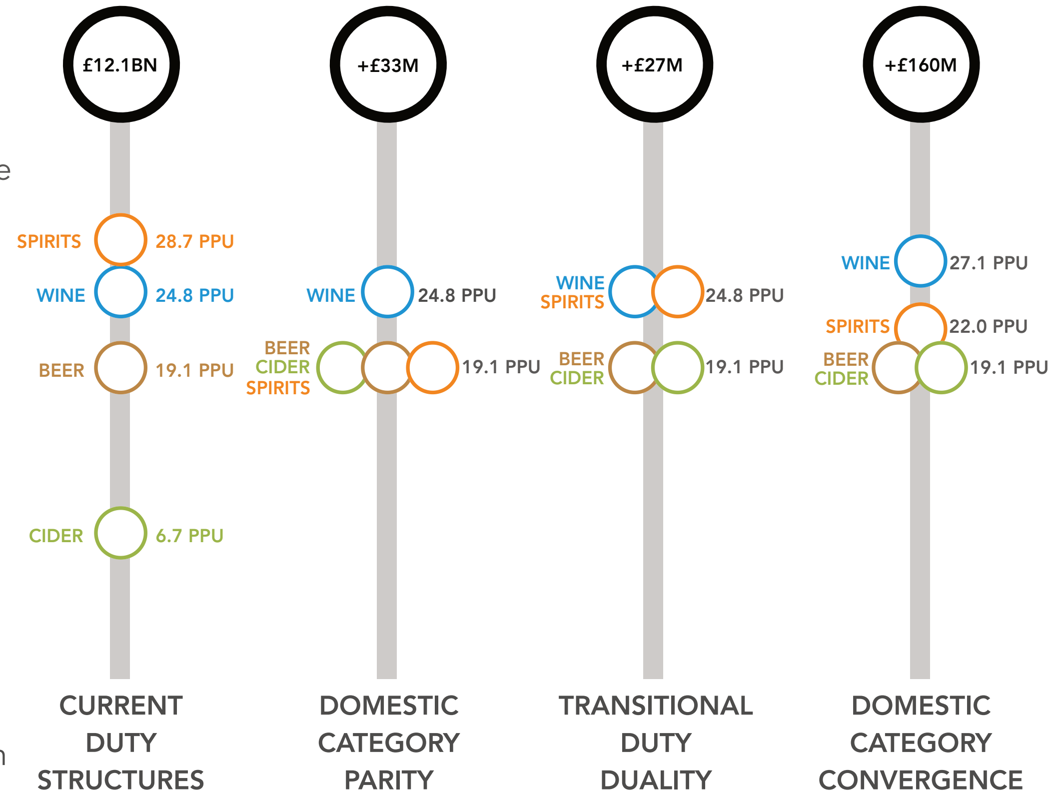
As the UK approaches the 200th anniversary of the Excise Act, it is appropriate to look at how alcohol taxation should be applied in a modern economy.

The SWA, working with the Centre for Economic and Business Research (Cebr), has developed three reform scenarios - all of which enhance the current revenue which HM Treasury receives through alcohol duty while reducing the per duty differentials between alcohol categories.

In doing so, we have shown that it is possible to change the structure of UK alcohol taxation into a more rational and fairer system in such a way that tax revenues are maintained or even increased and become more stable and predictable, while additionally providing the UK economy with stimulus.

While the scenarios do not create a perfectly rational system, they do seek to reduce the current imbalance between alcohol categories and remove anomalies that distort tax structures.

We will make available the full report to HM Treasury and we hope it will form the basis for a reformed alcohol tax system.



"We also want to step up UK government action to support key sections of the Scottish economy... it means listening carefully to the whisky industry's proposals for a review of alcohol duties."

Scottish Conservative MPs
Letter to new Prime Minister

"We think that review should be based on the amount of alcohol in each drink, and that taxation should therefore be levied on an appropriate basis."

Kirsty Blackman MP
SNP Deputy Westminster Leader

"We need a simpler tax system... of course we should continue to look at areas like alcohol duties as well."

Rt Hon Liz Truss MP
Former Chief Secretary to the Treasury

CASE STUDIES OF SUCCESS

MULTI-MILLION POUND RURAL INVESTMENT ON RAASAY

The Isle of Raasay, a teardrop island off the East coast of Skye in rural Scotland, became home to its first legal distillery in September 2017. The distillery embarked on a major new development incorporating a new visitor centre in January 2018. In total, the new distillery and visitor development is a multi-million pound investment

R&B Distillers is an independent Scottish owned company. Today, the distillery employs around 20 staff, which accounts for 12% of the island's local population. Since the distillery opened, it has become a notable feature of the community, generating additional tourism which has, in turn, resulted in the creation of other new local businesses.

The company is currently building two new maturation warehouses on Raasay which will allow it to utilise its current warehouse on site at the distillery for bottling in addition to cask filling which will in turn create new jobs.

The distillery currently exports to 15 countries with 78% of its sales exported and 22% in the UK.

BOOST FOR WHISKY TOURISM IN SCOTLAND'S CAPITAL

Earlier this year, plans were announced by Diageo for a £150m investment in Scotch Whisky tourism in the form of a new global flagship visitor experience centre in the heart of Edinburgh.

Diageo announced this project in early 2019 and it is as a result of the stable tax regime maintained in last year's budget that has made investments like this possible across Scotland.

The project is projected to create just under 200 new full time jobs as well as generate around £135m in tourism spend in the wider Edinburgh economy through the visitors it attracts to the city.

Diageo is currently investing over £185 million in Scotch whisky experiences in Scotland. As well as the Edinburgh location, the company is also investing to transform its existing 12 distillery visitor attractions across Scotland and a £35 million investment to reopen the iconic distilleries of Port Ellen and Brora.

SUPPORT SCOTCH - IT WORKS!

The Prime Minister has said that he is committed to supporting Scotland's iconic national drink. The Chancellor has said that maximising revenue "doesn't always mean that you have to have the highest tax rate possible" and that simpler taxes are better taxes.

In his first budget, we call on the Chancellor to back up these words with concrete actions to support the Scotch Whisky industry by at least freezing spirits duty, ensuring the spirits industry is not put at a further competitive disadvantage relative to other alcohol categories, and by committing to reforming the duty system.

Over the last five years, during a period of cuts and freezes to spirits duty, the industry has shown that lowering duty can raise more revenue to help pay for vital public services. As the Chancellor points out, higher taxes do not always lead to higher revenues - and the spirits category proves this time and time again.

But revenue does not tell the full story of the Scotch Whisky industry's contribution to the UK economy. When the government backs the industry at budgets, the industry in turn has the confidence to invest in the UK - creating vital employment and opportunity in communities across the country and filling the order books of our UK-wide supply chain.

The UK is a world-class producer of spirits, led by Scotch Whisky. The UK government should be proud of that and continue to back the industry at home.

In doing so, it will help to keep us competitive in global markets. The UK's spirits duty is almost twice the EU average, and one of the highest across comparative developed economies. One of the main barriers to tax reform in our export markets, where growth enables us to grow our domestic economic contribution, is the example the UK sets to others. But it doesn't have to be this way.

> **"We want to set them at a rate where we are trying to maximise revenue, and that doesn't always mean that you have the highest tax rate possible. Generally I want to see lower taxes, but at a level that is going to pay for the public services."**
>
> **Rt Hon Sajid Javid MP**
> Chancellor of the Exchequer

A reformed, simplified and fairer system can continue to deliver for the economy but reduce the inequalities between categories which make little sense in the modern world.

Voices across Parliament have called for reform. Think-tanks point out the need for reform. The Chancellor has said he wants to see simpler taxes. Now is the time.

The UK can lead the way in how alcohol is taxed in the 21st century - ensuring consumers can enjoy alcohol responsibly, while supporting industries - like Scotch Whisky - that directly benefit the UK economy.

Actions speak louder than words.

Chancellor, support Scotch to fire the economy in the autumn budget.