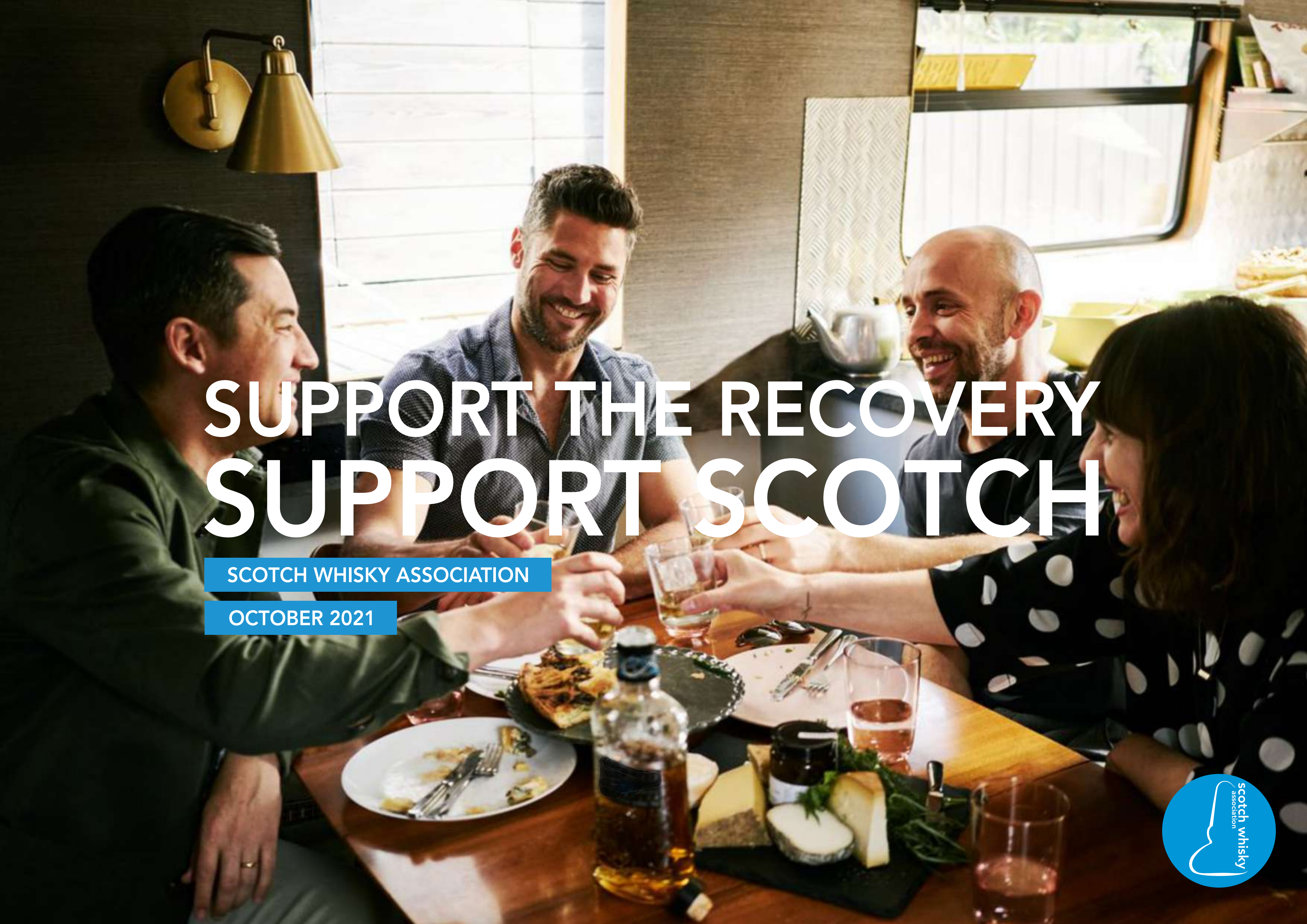
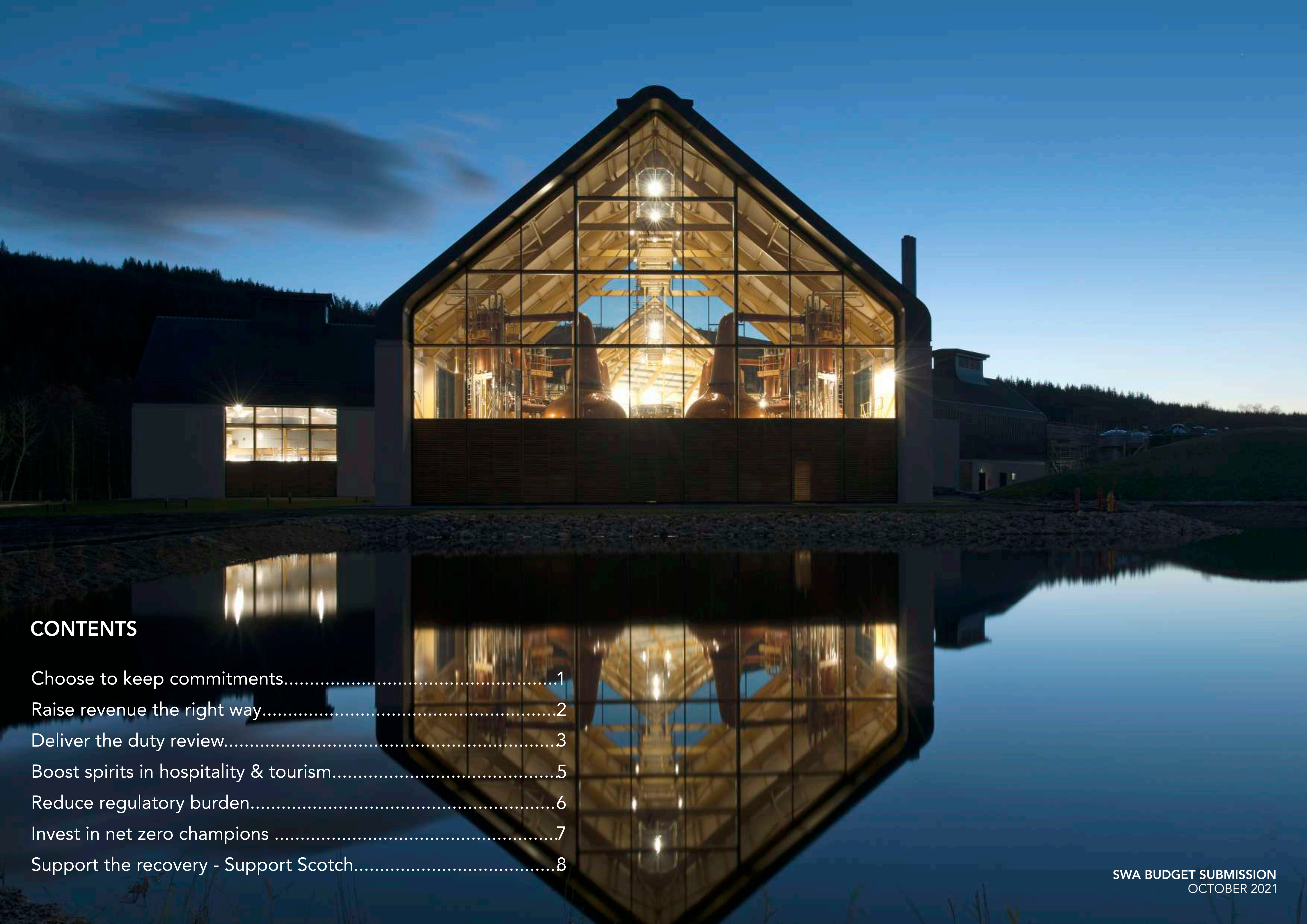


# SUPPORT THE RECOVERY SUPPORT SCOTCH

SCOTCH WHISKY ASSOCIATION

OCTOBER 2021



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# CHOOSE TO KEEP COMMITMENTS

*"We will 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."*

UK government Queen's speech; December 2019

**Almost two years after this promise to the Scotch whisky industry, one of the most important drivers of the Scottish economy and the UK's largest food and drink export, it is time to make good on this commitment. The Chancellor must choose to #SupportScotch on 27 October.**

The past two years have been one of the most challenging periods for the industry in recent history. It has seen over £600m in lost exports to the United States as a result of tariffs on Single Malt. It has seen over £1bn of lost exports around the world due to the Covid-19 pandemic. And it has seen increasing costs for businesses and consumers.

Now is not the time to further increase the 70% tax burden on the average price bottle of Scotch Whisky, not least with mounting inflationary pressures in the UK. Now is the time to keep to the promise made in the Conservative manifesto and the Queen's Speech to support Scotch Whisky and the 42,000 jobs the industry supports across the UK.

**In the absence of any significant progress to fundamentally reform the UK's outdated system of alcohol duty, the Chancellor must not further increase tax on spirits or further increase the competitive disadvantage already faced by Scotch Whisky in the UK market.**

## 5 CHOICES THE CHANCELLOR CAN MAKE TO #SUPPORTSCOTCH ON 27 OCTOBER

- NO INCREASE TO CURRENT SPIRITS DUTY RATE OF £28.74 PER LITRE
- SET OUT CLEAR TIMETABLE FOR REFORM OF UK ALCOHOL DUTY
- EXTEND 12.5% VAT RATE IN HOSPITALITY TO PURCHASE OF ALCOHOLIC DRINKS
- END THE USE OF DUTY STAMPS ON SPIRITS BOTTLES
- SUPPORT SECTORS COMMITTED TO REACHING NET ZERO

# RAISE REVENUE THE RIGHT WAY

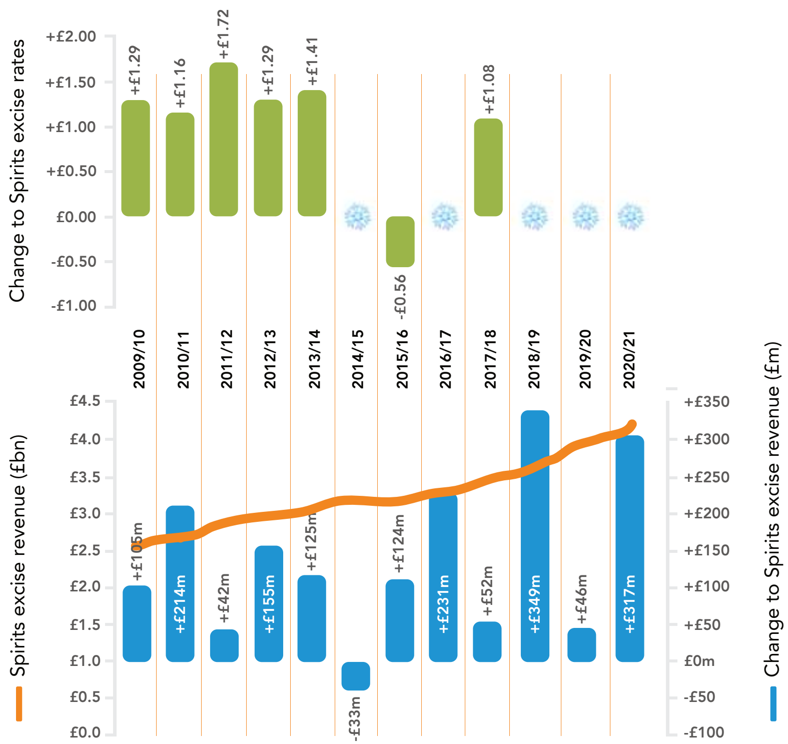
The Scotch Whisky industry is a significant driver of domestic economic growth. The industry contributes £5.5 billion to the UK economy, employs 11,000 people in Scotland and supports 42,000 jobs across the UK, and has invested over £1 billion in the UK economy through capital projects in the last five years.

All of this economic activity adds to the balance sheet of UK plc. By supporting Scotch Whisky in the 2021 autumn budget, the jobs and investment generated by the industry can be safeguarded and the recovery secured.

The industry also helps to boost public funds directly though spirits duty revenue. Over many years, the industry has presented modelling to HM Treasury which shows that spirits generate additional revenue through a more competitive, lower duty rate. As with all forecasting, this modelling can be subjective, but 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.

The graph below clearly shows this - HMRC receipts were up by 8.3% in 2020/21, rising above £4bn for the first time. This builds on a 1.6% revenue increase in 2019/20 and a 10.2% increase in 2018/19 - all following duty freezes. Following the 2% cut in 2015, receipts increased by 4.1%.

Spirits excise rates and annual revenue




**Source:** HMRC/SWA analysis

Given the high elasticities in the spirits category, we expect the maintenance of the current spirits duty rate to further increase government revenue. This will help to both payback some of the Covid-19 support which has been offered by government and allow the industry to continue to invest directly in the UK economy.

This is raising revenue the right way. In fact, spirits duty revenue has increased by £1bn over the past five years - by 32% - when the spirits duty rate over that period has been increased only once - by 3.9% in March 2017.

**By maintaining the current rate of duty, HM Treasury can keep its commitments to the industry and raise additional revenue at the same time. A clear win-win.**

29% → 34%

Spirits now account for 34% of total alcohol duty revenue - up from 29% in 2015/16.

£1bn

SPIRITS REVENUE HAS GROWN BY £1BN OVER THE LAST FIVE YEARS - AN INCREASE OF 32%

# DELIVER THE DUTY REVIEW

A year after the 'Call for Evidence' was launched as part of HM Treasury's alcohol duty review, the process has stalled. There is still no clear timetable for the reform of UK alcohol duty, which remains - in the words of HM Treasury in the 'Call for Evidence' - "highly inconsistent".

Scotch Whisky and other spirits bear the brunt of these inconsistencies. Spirits, including domestic products such as Scotch Whisky and gin, are taxed 256% higher per unit than cider and 16% higher than wine.

The Chief Medical Officers' (CMO) guidelines on low-risk consumption say adults should drink no more than 14 units of alcohol a week. 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 are taxed £1.68, those who choose to drink 14 units of wine are taxed £4.41, while those who choose to support Scotch Whisky are taxed £4.83.

Both the 'Call for Evidence' and the Conservative manifesto highlighted the high tax burden on Scotch Whisky, with £3 in every £4 spent on Scotch Whisky in the UK collected in duty and VAT.

**We believe that in the absence of any meaningful progress towards reforming the outdated and unfair duty system, spirits duty should at the very least remain unchanged for the duration of the review process, with no further widening of the competitive disadvantage already faced by Scotch Whisky versus other alcohol categories. In addition, the Chancellor should commit to a firm timetable for reform in the autumn budget.**

*"Tax on each bottle of Scotch sold in this country represents almost three quarters of its price."*

Conservative manifesto; Nov 2019

| SCOTCH WHISKY TAX BURDEN | |
|---|---|
| Excise Duty | £8.05 |
| VAT | £2.50 |
| Total Tax (70%) | £10.55 |
| Scotch Whisky (30%) | £4.46 |

Source: Tax burden based on average off-trade price of 70cl Blended Scotch Whisky at £15.01; Nielsen, August 2020


## Did you know?

The Chief Medical Officer low-risk drinking guidelines say consumers should have no more than 14 units of alcohol a week.

14 units of alcohol consumed as Scotch Whisky is taxed more than alcohol taxed as wine or cider.

**Scotch Whisky Highball**

50ml 40% abv Scotch Whisky = 2 units of alcohol

Tax paid on 14 units = £4.83

**Pint of Cider**

4% abv = 2.3 units of alcohol

Tax paid on 14 units = £1.68

**175ml glass of wine**

11.5% abv = 2 units of alcohol

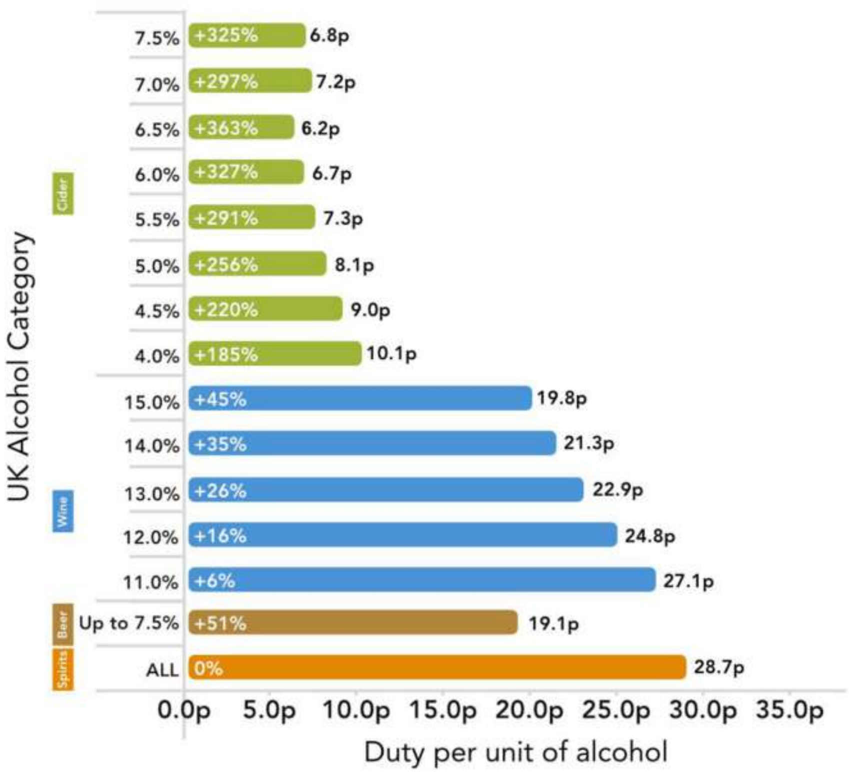
Tax paid on 14 units = £4.41

*"When compared on per unit basis the duty system as a whole is highly inconsistent."*

HMT 'Call for Evidence'; Sept 2020

# Did you know?

In March 2021, Chancellor Rishi Sunak told Kate Ferguson of The Sun and Lucy Fisher of The Daily Telegraph that he is "keen to do" the alcohol duty review and apologised because "we haven't got to it yet." When pressed on whether reform would take place by the end of 2021 the Chancellor replied "I would hope so."




With the Alcohol Duty Review underway, the Chancellor should reject any action which further increases the competitive disadvantage faced by Scotch Whisky and other spirits in the UK. With 92% of UK spirits production based in Scotland, the unfairness of UK duty structures disproportionately impacts Scottish businesses.

HM Treasury, in the recently completed 'Call for Evidence', admits that the current system is "highly inconsistent" - that inconsistency must not be compounded in the autumn budget.

The Chancellor should instead use the autumn budget to begin to address, in a phased approach, some of the inconsistencies and irregularities that have arisen in the alcohol tax system.

For example, per-unit of alcohol, tax on wine and cider decreases as the alcohol content increases. 11% ABV wine is taxed at 27p per unit, while 15% wine is taxed at 20p per unit. 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.

While these structural anomalies must be fixed as part of the duty review, the autumn budget is an opportunity to bring about greater fairness for Scotch Whisky and fulfil the government's manifesto commitment.

# BOOST SPIRITS IN HOSPITALITY & TOURISM

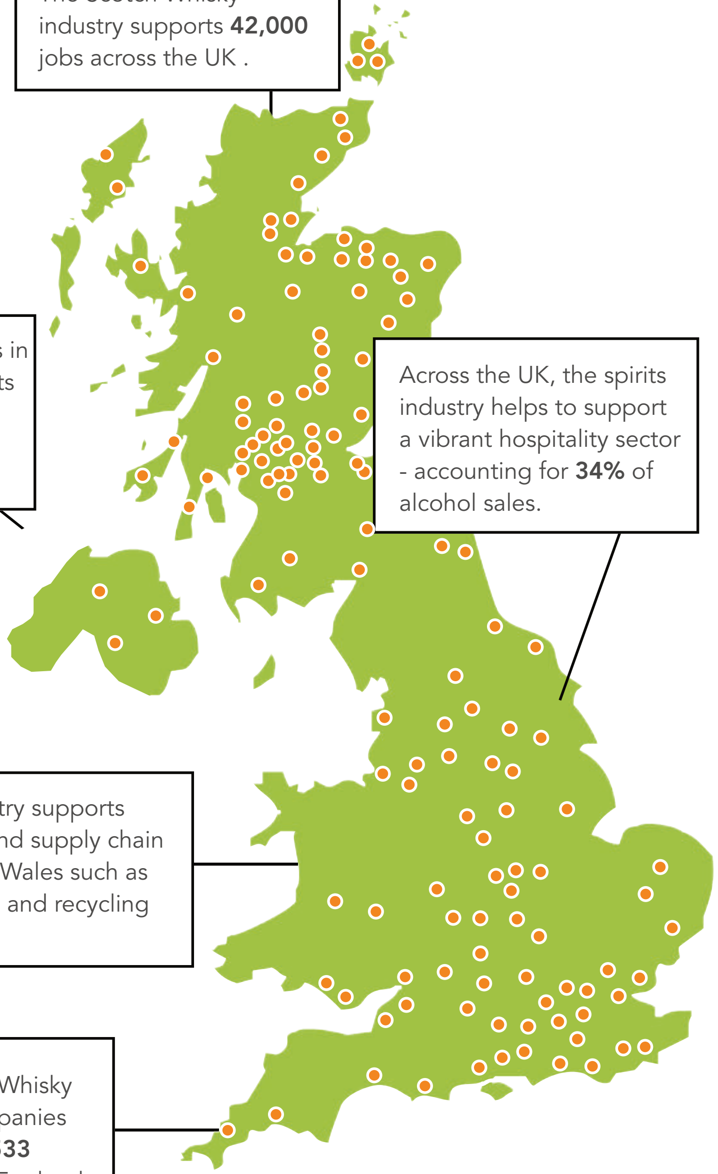
There are now almost 700 distilleries across the UK - supporting the employment of around half a million people. This includes the jobs supported at over 8,500 Scotch Whisky supply chain companies across all four nations of the UK, as well as in the hospitality and tourism sectors.

Supporting Scotch Whisky on 27 October is a key part of the 'Plan for Jobs'. The Chancellor can help to fill the order books of companies in every part of the UK - from marketing and logistics to raw materials and professional services. 95% of the industry's total global supply chain in based in the UK - meaning when Scotch Whisky is backed in the budget, UK-based companies benefit.

Support in the budget also gives our member companies confidence to invest across the UK. Past freezes and cuts in spirits duty have created a stable environment helping distilleries to invest over £1bn in expanding production, tourism facilities, our UK-wide supply chain, as well as efforts to achieve our sustainability objective of reaching net-zero by 2040.

The Scotch Whisky industry - and other spirits producers - form an important part of the hospitality and tourism sectors. Further support for spirits would provide a welcome boost, especially pubs and restaurants - which rely on spirits to generate 16% of total revenue, and 34% if food sales are excluded.

The hospitality industry has been one of the worst impacted by Covid-19. **The Chancellor can help boost hospitality businesses by not raising duty on alcohol and extend the 12.5% VAT rate in the on-trade, extending it to the sale of alcohol, beyond 31 March 2022.**

# REDUCE REGULATORY BURDEN


The Scotch Whisky industry is committed to tackling fraud and has worked closely with HMRC to combat illicit trade in alcohol. In 2003, the SWA was one of the first trade bodies to sign a Memorandum of Understanding with HMRC to advance our shared aim of tackling fraud, and the SWA currently sits on the Joint Alcohol Anti-Fraud Task Force in an effort to continue to reduce instances of fraud.

This month marks the 15th anniversary of the introduction of duty stamps in the UK market. HMRC mandated tax stamps on spirits bottles on the basis that spirits fraud was approximately £600m in 2001/02. The industry strongly disputed this estimate at the time.

HMRC recognises the difficulty in estimating the 'tax gap' resulting from instances of fraud. In the latest estimate, HMRC states that "due to the uncertainty in the methodology used, the central estimates should be interpreted as an indicator of long-term trends, rather than as a precise estimate of year-on-year changes."


Despite the admitted inaccuracy of the estimates, and hard work to drive down instances of fraud in the spirits sector, the spirits industry is the only alcohol category which has the added regulatory burden of duty stamps.

As with alcohol duty structures, this puts the spirits sector at a competitive disadvantage versus other alcohol categories.

Duty stamps are a drag on productivity and, with no direct evidence that they have resulted in a reduction of illicit trade over the past 15 years, the requirement to have them on all spirits bottles in the UK market should be ended.

**By reducing the regulatory burden on the industry - which has been singled out in the use of duty stamps despite the lack of evidence - the Chancellor must give hard pressed businesses across the UK a much needed break.**

# INVEST IN NET ZERO CHAMPIONS

The Scotch Whisky industry is an environmental leader. Over the last 10 years, the Scotch Whisky industry has reduced greenhouse gas emissions by 34%, increased renewable energy use from 3% to 28% and improved energy efficiency by almost 10%. At the same time, the industry has increased production and exports. This is the kind of productivity, with green ambitions at its heart, that should be incentivised by the UK government.

**Ahead of COP26 in Glasgow, taking place just a week after the budget on 27 October, the Chancellor has a chance to invest in the UK's net zero champions, like the Scotch Whisky industry.**

The Scotch Whisky industry has recently been recognised for its commitment to a sustainable future, with the SWA becoming Scotland's first trade association to be made a 'Race to Zero' partner by the United Nations. But every pound of additional tax on the industry is a pound that producers don't have to invest in reaching our net zero goal.

In addition to reducing the tax burden on industries, like Scotch Whisky, which are committed to a green future, the Chancellor should repeat the success of the £10 million Green Distilling Fund announced in the March 2020 Budget.

This funding has enabled distillers to test innovative and emerging low carbon technologies which will be needed for us to achieve our net zero ambitions, and to share the results to the benefit of all. But we must go further - and by building on the Green Distilling Fund in the autumn budget, the UK government can underpin the progress that has already been made by the industry in ensuring a more sustainable future for Scotch Whisky.

# SUPPORT THE RECOVERY - SUPPORT SCOTCH

The economic recovery from Covid-19 is underway - retail, tourism, hospitality and manufacturing have all reopened and lost ground is slowly being regained.

But the recovery will not happen overnight, and remains fragile.

The rising cost of living, increased costs in the supply chain, and inflationary pressures are elements that can tip the balance. The decisions taken by the Chancellor in the autumn budget will be a key in how quickly the Scotch Whisky industry recovers, how investment is underpinned, and how jobs are protected.

In short, the Chancellor has a choice - keep the recovery on track or add further pressure on business by further raising the tax burden on the industry.

The Chancellor should choose to support the recovery and **#SupportScotch**

1. NO INCREASE TO CURRENT SPIRITS DUTY RATE OF £28.74 PER LITRE
NO INCREASE TO COMPETITIVE ADVANTAGE OF OTHER CATEGORIES
2. SET OUT CLEAR TIMETABLE FOR REFORM OF UK ALCOHOL DUTY
3. EXTEND 12.5% VAT RATE IN HOSPITALITY TO PURCHASE OF ALCOHOLIC DRINKS
4. END THE USE OF DUTY STAMPS ON SPIRITS BOTTLES
5. SUPPORT SECTORS COMMITTED TO REACHING NET ZERO

The Prime Minister has committed to supporting the Scotch Whisky industry.

**Photo Credit:** PA/Stefan Rousseau

**At a glance:** Scotch Whisky industry economic contribution to the UK

Over two-thirds of UK spirits GVA is generated by Scotch Whisky

The UK's balance of trade deficit would be 3.3% greater without Scotch Whisky

Scotch Whisky accounts for 21% of all UK food & drink exports

The industry employs over 42,000 people across the UK