BBPA submission to the All-Party Parliamentary Group on Beer's inquiry into the future of cask beer

Overview

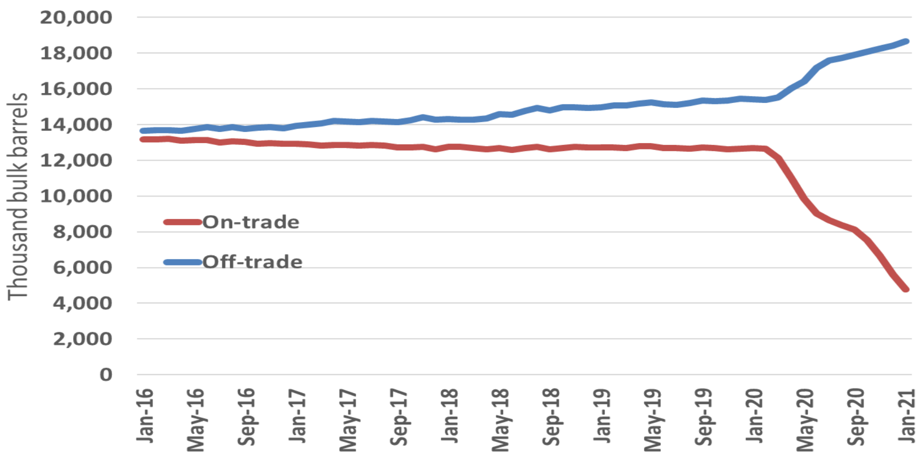
The British and Beer and Pub Association welcomes the opportunity to submit evidence to the All Party Parliamentary Group on Beer's inquiry into the future of cask beer. A healthy beer and pub sector is vital for the prosperity of the UK. Pubs are at the heart of many communities, as well as contributing hugely to local economies. Pubs and brewing supports 900,000 jobs across the UK, contributing £23 billion to the UK economy. Before the pandemic hit, one-in-fourteen young adults were employed to work in our sector, which generates nearly £13 billion in tax revenues for the Exchequer.

The COVID pandemic has been the biggest crisis ever to hit the beer and pub industry and the impacts will be long lasting. The prolonged closure of the pub sector across the UK for the majority of the last 14 months means that publicans, the pub businesses that support them and the brewers that are reliant on them remain in a very precarious position. According to CGA[1], over 2,000 have already closed for good and many previously profitable brewing businesses been lost. This has resulted in tens of thousands of local jobs disappearing and communities left without a critical asset that binds them together. For the remainder of the sector debt levels have spiralled and the future uncertain. Just considering beer sales in pubs and the wider on-trade, these have fallen by almost 70% in the last 12 month, wiping out more than by more than £9.6bn of sales value.

1. What has happened to cask ale in the last year?

Since the volume of beer sold through the off-trade overtook that sold through the on-trade in 2015, the gap has been widening every year. This was exacerbated drastically by Covid-19 and the associated lock-downs in 2020, as shown in chart 1.

Chart 1 – Volume of beer sold through the on-trade and off-trade over the last 5 years, MAT

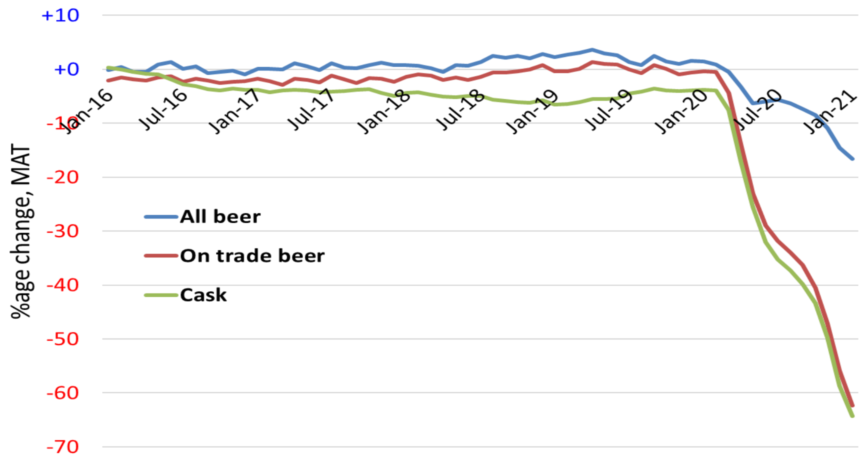


[1] https://cgastrategy.com/market-recovery-monitor-january-2021/

Source: BBPA

The performance of cask ale, which by definition is exclusively an on-trade product, has been tracking slightly worse than on-trade beer as a whole over the last 5 years, and has not seen positive MAT growth since 2015.

Chart 2 - MAT growth of cask ale, on-trade beer and total beer over the last 5 years



Source: BBPA

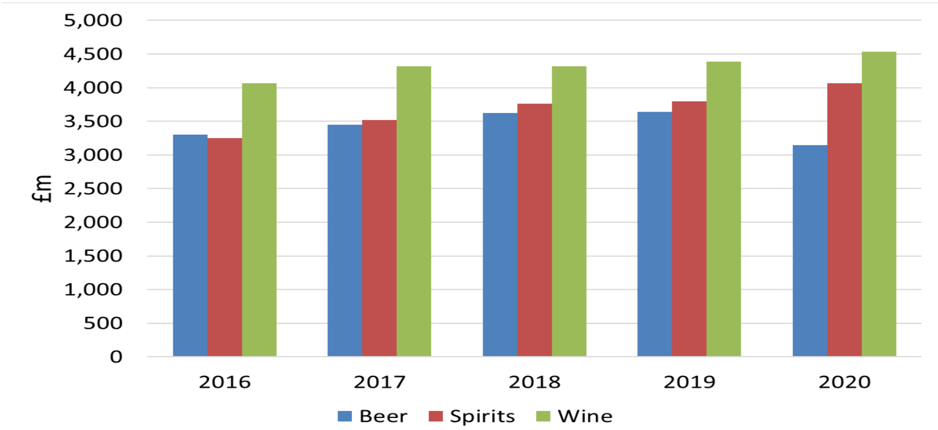
Over the 12 months to the end of February 2021, the volume of cask ale sold in the UK has fallen by an extraordinary 71.6% compared with the 12 months to February 2020. This is worse than the fall in total on-trade beer sold during the same period, which fell by 69.3%, a trend that is consistent with cask ale's performance relative to total on-trade beer seen in recent years. Beer sales in the off-trade increased over the period, as would be expected, but overall the market was still down more than 18%.

Beer performance relative to other alcoholic drinks

As well a big shift towards off-trade consumption in the beer category, 2020 saw a concurrent shift towards home consumption of wine and spirits within the alcoholic drinks category. This is unsurprising given that 7 out of 10 drinks served in the pub are beer, and pubs were closed for large portions of the year.

Chart 3 demonstrates that duty receipts had been on the increase year-on-year in all drinks categories up until 2020, when there was a sharp rise in duty receipts from wine and spirits coupled with a big fall in duty receipts from beer

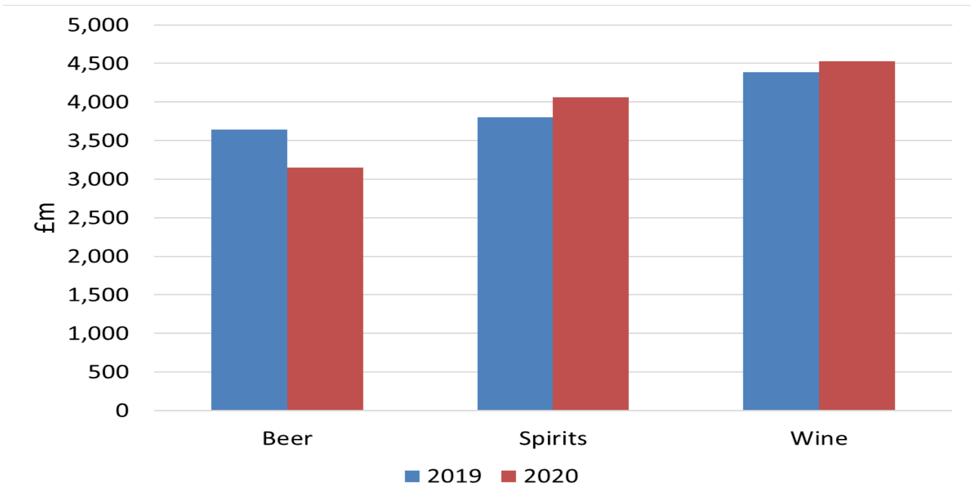
Chart 3 – Duty receipts from alcohol for the last 5 years



Source: HMRC

Chart 4 shows more clearly the effect that this enforced shift towards home consumption had on the relative duty receipts within the alcoholic drinks category.

Chart 4 – Duty receipts from beer, spirits and wine in 2019 and 2020



Source: HMRC

2. Why does cask ale matter?

Cask beer production is intimately linked with the development of Britain's brewing heritage. It remains a popular beer style produced across the country and is a method of production that is not routinely undertaken anywhere else in the world. This heritage is reflected not only in the construction of our breweries and pubs but also the very nature of the ingredients used to create beer.

Cask beer production makes up a significant proportion of ale brewing in the UK and involves production methods that are distinct from those required to produce lager and beer packaged into bottles, can and kegs. Examples of this approach, in some cases which have been continuous and uninterrupted over decades, can be found in breweries new and old up and down the country.

Similarly, the construction of the pub cellar is unique to British pubs and to support the specific requirements associated with the final preparations for cask beer as a live product prior to serving to the consumer. As a 'live beer', this requires a final fermentation and conditioning step within the cask that is vital to the unique characteristics of this beer style including a natural carbonation in a similar way to champagne production that leads to a froth or 'head' when served. Pub cellars enable the cask to be stored in the correct way and at an ideal temperature to support this process and licensees must be trained specifically to ensure that the 'conditioning' process is undertaken correctly.

Our home-grown ingredients traditionally associated with cask ale production continue to influence the agricultural landscape connected with brewing. Traditional bittering hop varieties still form the more common varieties grown in the UK. Not only are these hops used as for brewing, but they are also fundamental in supporting our national hop breeding programme which is used to identify new varieties suited to use by today's craft brewers. Similarly, heritage barley varieties such as Maris Otter are still grown and malted domestically, expressly for the purpose of brewing cask beer.

A recent Oxford Economics study from December 2020[2] estimates that breweries in the UK sustain nearly 100,000 jobs (direct, indirect and induced), of which cask ale contributes 6,500. The same study estimates there are just over 492,000 beer related on-trade jobs in the UK (direct, indirect and induced) of which cask ale contributes 72,500. That equates to nearly 80,000 jobs related to cask ale in the UK, all of which can play an important part in helping the economy recover from the devastating economic effects of the pandemic.

3. How can the Government help support brewers and pubs and cask ale?

Unfortunately, pubs and brewing have disproportionately borne the brunt of restrictive business measures despite the huge resource and effort going into making them Covid-secure workplaces. Despite seeing over 2,000 pubs close for good because of the devastating effects these restrictions are having on our sector, we are hopeful that the UK's pubs and brewers will recover and with that bring huge benefits to the towns and cities that they operate in.

As a recent report by think tank Localis demonstrated, while support for any sector needs to be considered in the balance of unprecedented national debt which requires prioritisation of growth-boosting and revenue raising policies, the positive effect of beer and pubs on the national fiscal situation in normal times is clear. Pubs are a major beneficiary to the Treasury. They hold the potential to generate the income needed to lower national debt and kickstart the economy again, but must be helped in trading to remove accumulated debt of the last year and generate income and employment in their communities, providing career opportunities for hundreds of thousands of young adults.[3]

As we have highlighted above, total beer sales in pubs and the wider on-trade have fallen by almost 70% over the last 12 months with cask ale a little over 70%. Beer accounts for two-thirds of drinks sold in pubs and, on average, just under a half of a pub's turnover. Therefore, measures that support pubs

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[2] Oxford Economics, The Economic Impact of the Beer and Brewery Sector in the UK, December 2020

[3] Localis, 'The Power of Pubs' 2021: https://beerandpub.com/wp-content/uploads/2021/03/Localis.pdf

and beer will be critical for all brewers as well as those who brewcask ale and the millions of pub goers who want to see cask ale on the bar of their local pub.

We also need Government support to ensure a job-rich recovery after this pandemic, to take steps to level the playing field with other European nations post-Brexit, and to support a world-class domestic industry. The following policies are critical therefore:

1. **Stick to the current full re-opening roadmap, bring certainty.**

2. **Reduce beer duty in 2022-2023.**

3. **Extend the reduced VAT rate in place for food and soft drinks to all drinks, specifically including beer and with a view to permanently lower rates for hospitality.**

4. **Reform the Business Rates system.**

5. **Promote a supportive regulatory environment.**

6. **Support for the agricultural supply chain**

1. Stick to the current roadmap. While continued economic support is vital to help the sector, our pubs and brewers need to return to normal trading as soon as possible. That is why it is imperative that the Government allows pubs to operate without restrictions as planned from 21 June. The current restrictions continue to harm our sector, with BBPA research showing that 29,000 pubs – 60% of all pubs in the UK – will still remain closed after 12 April, when they are allowed to serve outdoors only.

It is crucial for the sector that the Government commits to following the dates the roadmap sets, as long as the positive data on vaccination and infection rates continues. That is why we are calling on the Government to end trading restrictions by 21 June, to allow pubs to operate at their fullest possible capacity—this will give our pubs the best chance to get back on their feet and serve their communities, while coming back stronger once normality returns. The recovery cannot fully begin until restrictions have been lifted. The recent research by Localis revealed that as well as having a vital role to play in the COVID-19 recovery, a vibrant pub sector is vital to Government's own levelling up agenda. To enable this they must reopen fully by June 21.

Sustainable trading levels are vital to cask ale because of its short shelf life. Brewers need pubs to get back to confident and consistent trading so pubs can order casks with confidence that they can sell enough volume and not have it spoiled. In the lockdown and reduced trading periods since March last year, we believe that pubs have tipped away c.87 million pints of beer (keg and cask) worth over £300 million.

2. Reduce beer duty in 2022-2023. This policy will directly benefit every brewer, help protect the Great British Pub and the communities, jobs, and livelihoods that depend on it. Beer duty represents over 90% of a brewer's direct tax. It is a shocking fact that Britain pays more in beer duty each year than

France, Germany, Italy, Spain and Ireland combined. With over 80% of beer consumed in the UK also brewed here, a tax on the industry is a tax on an entire supply chain, from grain to glass, which supports so many jobs across the country. Beer duty is a particularly regressive form of taxation: the lower your earnings, the higher the share of income that is likely to be spent on beer duty.

In addition, a cut in beer duty will make a significant difference in allowing pubs to continue to act as social hubs for people from all walks of life with many pubs running public services, as well as putting on community events and cultural activities. Pubs and brewers are invested in their communities' well-being and the sector's reaction to Covid-19 exemplifies the value of the sector to the community.

3. Permanently lower VAT rates for hospitality include alcohol sales. A critical piece of the economic support provided to the hospitality sector during the pandemic, and reinforced in the next Budget, was the cut in VAT from 20% to 5% for on-trade food and soft drinks sold (increasing to 12.5% in October 2021). This has been a lifeline for many and should be made permanent to aid long term recovery, generate jobs and drive growth. However, for wet-led pubs re-opening in the summer 2020 with partial trade, higher overheads, and mounting debt, this was a benefit they could not enjoy, particularly as restrictions tightened meaning trade levels falling further and with losses mounting fast.

That is why we are calling for this lower VAT rate to also be extended to cover all drinks including beer. This policy is realistic for the UK Government to enact following the end of the Brexit transition period which sees an end to the EU's VAT Directives that prohibit reducing VAT on alcoholic drinks sold in pubs without being part of a meal.

We appreciate that VAT reductions of this sort represent additional investment in the sector, but the payback in jobs, growth and community wellbeing are significant; the BBPA urges Government to use its new powers to support the millions of lives and livelihoods that depend on our pubs and brewers across the country. Respected think tank Localis, also call for this in their recent report.

4.Reform the Business Rates system. We welcomed the Chancellor's announcement, partially extending the current Business Rates holiday for an extra 12 month. However, we believe a fundamental reform of the system is key to achieve a level playing field with many other businesses, including online ones.

We welcomed the Government's announcement to align better the UK's tax regime to the realities of the 21st century economy through the introduction of a digital services tax, but we believe this needs to go further. Digital retailers often require the same services from their local councils as the shops on the high street, yet they maintain a substantial tax advantage due to the lack of a Business Rates tax equivalent for online retail. This new tax should be used directly to offset the burden of business rates to better reflect today's economy. Relative to their share of business turnover, before the pandemic, pubs were over-paying in business rates to the tune of £500 million. This is simply not feasible moving forwards.

Covid-19 has worsened the cripplingly high burden of business rates and beer duty and this is perhaps most acutely seen when compared to digital firms' tax liabilities. Not only have those digital businesses continued to trade throughout lockdown, but it has also accelerated consumer trends towards online purchasing. The overall suite of taxes needs to be rebalanced to reflect a modern economy. Even before

Covid-19, Amazon paid a mere £13.4m in corporation tax last year on turnover of £14.6 billion – this cannot represent their fair share. Amazon and other digital retailers must rely on the same roads, NHS services, etc. as those businesses on the High Street. It matters what business occupies a particular space as they impact the social fabric of the UK differently – the pub is the heart of the community, preventing loneliness and isolation.

For property-based businesses generally, the rates multiplier must be adjusted downwards if the business rates system is going to remain a viable avenue for tax in the future. It has increased to a staggering 50.4p today from a more manageable 34.8p in 1990/91. Moreover, it is not fit for a digital age. Digital retailers often require the same services from their local councils as the shops on the high street, yet they maintain a substantial tax advantage due to the lack of a Business Rates tax equivalent for online retail. We have previously supported proposals calling for a 20% cut in the business rates multiplier paid for by a 2% online sales tax on goods. At least a 20% cut in the multiplier is now needed.

For simplicity and fairness, we would also support a national multiplier across the country rather than any return to differential multipliers by region or property value. Any supplements should only be for specific projects as per the example of Crossrail. However, we do support a multiplier by property type which would be less distortive, particularly if set nationally based on agreed definitions. We believe a pub specific multiplier should now be considered to address the unique position faced by pubs and is the most practicable way to ensure pubs only pay their fair share of the rates burden going forwards.

5.A supportive regulatory environment. Following this crisis, we believe there is a unique opportunity to reset parts of the regulatory landscape and reduce red tape that has previously inhibited growth and effective operation of the hospitality sector. Many of these have grown up over time from piecemeal legislation, some are relatively new, but the unintended consequences are plain to see. Indeed, the vast majority of local authorities now actively support the diversification of hospitality businesses, including use of their outdoor space. Other elements work well for our sector but currently have been introduced as temporary measures and should instead be made permanent. We believe Government should also place a two-year moratorium on any new regulation that would add unnecessary costs to the pub sector and inhibit their recovery.

6.Support for the agricultural supply chain. The pandemic has had a catastrophic impact on the agricultural sector linked with brewing in the UK. In particular for the hop sector which has long been considered as a secondary crop in comparison to barley, which is also important role for other food and feed products. The British hop sector has been an intrinsic part of our domestic brewing heritage since the 14th Century and in this time has also been a significant influence on European hop development. Due to the lack of certainty over resumption of brewing and long-term closure of pubs during the pandemic the hop sector is at risk of collapse. Many growers have delayed planting in 2020/2021 and some have already given way to alternative fruit crops. The collapse of our domestic hop sector would mean British brewers, particularly those producing cask ale, would be denied access to traditional and characteristic ingredients with more reliance on imported varieties.

Direct investment in our domestic hop sector would protect our access to this vital ingredient and potentially increase the value of British hops as an export product in the similar way to that of the New Zealand Government who in 2018 invested approximately NZ $8 million in their domestic hop industry. This investment resulted in a significant increase in acreage and the development of proprietary hop strains that command higher market prices; roughly double that of our domestic hops and up to five times the price of some European varieties.

BBPA
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