

## “The Future of Cask Beer”

Parliamentary Inquiry - call for evidence  
Beer APPG

### Introduction

Heineken thanks the APPG for launching this important consultation into cask beer. In our submission we outline how we have been supporting the cask ale industry through our pub business, as well as our support for smaller breweries through the pandemic.

Headquartered in Edinburgh, HEINEKEN is the UK’s leading pub, cider and beer business. We own around 2,500 pubs as part of our Star Pubs & Bars business and employ around 2,300 people directly – with many thousands of people employed indirectly. Our portfolio of brands includes [John Smith’s Cask Ale](#), [John Smith's Extra Smooth](#), [John Smith’s Original](#), and [Deuchars](#) as well as many lager brands such as Amstel, Birra Moretti, Foster's, Heineken®, Desperados, Kronenbourg1664. We also produce leading cider brands such as Strongbow, Bulmers, and Old Mout.

### Covid-19 and the brewing and pub sector

We remain committed to playing a full role in helping to tackle the pandemic. But it must be recognised that pubs and brewing have been disproportionately impacted by some of the business restrictions put in place – despite being approved as Covid-secure workplaces.

We are still seeing the devastating effects for our lessees of being closed for a large part of the last year and operating under vastly reduced trading for the remainder. **We have had to provide over £60m of rent relief for our tenants alone.** We share further detail of our support below in Appendix One.

### Why does cask matter?

We believe that pubs should have access to a wide range of quality beer and cider from small, local, independent breweries. We know consumers want a great range of products when visiting their local and, as passionate supporters of the Great British Pub, we want our Star Pubs & Bars outlets to have the right range of products, including those from local and independent breweries.

We’re offering more choice than ever before, are constantly improving access for local breweries, and we continue to work with each of our licensees individually to ensure they have the right range of local products to offer their customers. We’re always looking for ways to deliver business benefits for our licensees and a great pub experience for consumers.

To ensure our pubs have access to the smaller brands and independent breweries, we provide our licensees with the best possible tools and resources – the key examples are [Discover Cask](#), [SIBA Beerflex](#) and [Cask Marque](#):

**Discover Cask:** We are proud to offer our licensees our own ‘Discover Cask’ program. Through ‘Discover Cask’, licensees are able to access a huge range of seasonal ales for their customers to enjoy. ‘Discover Cask’ sits alongside our existing portfolio of leading brands and cask beer

on offer. In addition to the standard cask beers, we typically have a rotation of 12 guest beers from around 30 suppliers throughout the year. This helps to ensure that licensees have access to a wider range of quality beers from small, local, independent breweries.

**SIBA Beerflex:** We also have a partnership with the Society of Independent Brewers (SIBA). Through this partnership, our pubs are able to sign up to the 'SIBA Beerflex' Scheme. 'SIBA Beerflex' offers a route for smaller independent brewers into the market and helps bring local beer into our pubs. The scheme is designed to enable our licensees to broaden their range of cask ales in stock by offering their customers a very local beer. The scheme offers a variety of over 3,500 draught and bottled beers from 500 smaller brewers. Any of our pubs who have Cask Marque accreditation can supply beer from breweries within a 30 mile radius. We are proud that **over 100 of our pubs** are members of the 'SIBA Beerflex' Scheme.

**Cask Marque:** We are active supporters of Cask Marque, which helps us ensure that the cask ale that is sold in our pubs is in perfect condition. We've made year on year investment growth in this, and over 800 of our pubs are now accredited. We know how important this quality mark is to drinkers.

### **What has happened to sales of cask, and can we ensure its revival through investment?**

Since April last year, Star Pubs & Bars have continued to invest in our pubs. Our total investment is on track to be £50 million into our pub estate across the UK, including 150 transformational refurbishments where we overhaul the pub to provide them with more income streams. We know that pubs sell more cask ale when pubs receive the right amount of investment. In fact, [CGA data from October](#) reflects that while cask ale's year-on-year volumes have lagged behind most other beer categories so far (with volumes down 7%), in Star Pubs & Bars outlets cask sales are **actually up 5%**. We also have a larger market share in the cask segment – cask represents 12.6% of the total beer market, but within our pub estate cask has a 15.7% share of beer sales. We believe this to be in direct correlation to our well-invested estate and the initiatives above.

We have a strong track record of supporting smaller brewers. To give you just one example, we work with Lincoln Green Brewing Company, and they recently took on their second leased pub with us in a joint £275,000 refurbishment at the Railway Hotel, Belper. The pub focuses on cask and craft ales with eight Lincoln Green local beers available. We have many further examples from across our estate.

### **Stocking and cask ale**

Our starting principle on stocking is that we will always do what is right for each individual pub. Changes to stock will come about as a result of discussion and agreement with the licensee on the basis of what is right for that pub and their customers. Indeed, since the acquisition of 1,900 pubs from Punch Taverns in 2018, we have retained smaller brewer brands, knowing and supporting the local dynamic. Fundamentally, where there is consumer demand for these products, we will support what is in everyone's shared commercial interests.

## Using a lower rate of duty in the on trade

We do understand the impetus from parts of the industry, and from Members of Parliament, arguing for lower excise duty for the on trade specifically. This has never been more pertinent than now when the effects of Coronavirus are hitting the hospitality sector so hard. It therefore feels to many like a reduction in on trade duty will revitalise parts of the industry like cask beer. We welcome any help that is offered, but we are concerned about the effect on consumers and producers of creating a divide between the on and off trade. We believe that in the longer term this will just increase costs for consumers purchasing from supermarkets, wholesalers and through the wider retail off trade market.

While it is right to acknowledge the increased cost to serve in the on-trade, especially for beer and cider, we believe a more targeted intervention on other pub taxation is required.

We believe that a better way for this to be approached is through reformation of the business rates system and a reduction of VAT levied on beer and cider sold in the on-trade – rather than through a differential rate of duty. The Covid-19 pandemic and government support for pubs and hospitality through a VAT cut while venues have been open (but capacity constrained) has proven to help drive revenue, which in turn supported HMT receipts.

Splitting a duty system based on retail channel will increase complexity precisely when the current duty review consultation is trying to simplify it. It would be hugely difficult to differentiate between alcohol sold in the on trade and alcohol sold in the off trade. It would lead to additional cost through the possible introduction of new SKUs and a greater administrative burden on producers and HMRC.

The simplest way this could be done would be to charge a different rate of duty for beer sold in casks or kegs (something which doesn't happen in the off trade). However, that would not cover products sold in bottles and cans which have an increasingly large portion of the on-trade market.

A much simpler and more effective way to do this would be to have a different rate of VAT for beer and cider sold through hospitality. A reduced rate of VAT for beer in hospitality has been used recently [in Romania](#) and [in the Czech Republic](#) where the sale of draft beer is subject to just a 10% rate of VAT. This system has the benefit of increasing demand in the hospitality sector by allowing them to pass savings on to their customers.

It has the added advantage of being simpler and less open to fraud, and over the longer term generate sustainable receipts for HMT through a more vibrant sector with more trade across multiple categories, including food sales. Using the VAT system would allow the flexibility to, for example, only reduce the VAT on alcohol if it was sold with a meal. Currently 39% of alcohol occasions in hospitality involve some food purchase. If you separate out 25-40 year old consumers, this percentage increases to 47%. (Source: Kantar) This kind of flexibility could not be achieved through the duty system.

## **Appendix One – Star Pubs & Bars support during Covid-19**

### **COVID-19**

During this crisis, it has been refreshing to see that all parts of the industry support each other through these challenging times– it is important that all of us who work across the beer and pub industry, and those who enjoy pubs, come together to protect the future of the Great British Pub.

### **COVID-19: Supporting Smaller Breweries**

Throughout the pandemic, our cask category manager has had regular weekly meetings with our finance team to discuss our smaller brewer suppliers. We knew from the very outset that they would need commercial leniency on payments, support with uplifting their stock and that they would be in need of cash credit. We've worked with each of our suppliers individually and have also continued to engage with SIBA.

When pubs reopened on 4 July 2020, we re-opened with nearly 30 cask products on offer, having repatriated £9 million worth of out of date cask stock from cellars. We increased this to 70 products from 3 August and have also influenced some of our contract partners who were originally not re-opening their pubs with cask beer. When they learnt we were re-opening with cask products, they followed our lead and ordered more cask through our network.

From this year's reopening on April 12<sup>th</sup> we will have 64 cask ales. These are the products that delivered 90% of our 2019 volumes, so we are confident this will meet the bulk of customers' and drinkers' requirements. The remainder of cask lines will be available from June 21<sup>st</sup>. For the initial reopening it is crucial to keep quality in mind through a limited offer. When we reopened last year cask suffered the greatest decline in sales. However, we still regard cask as a vital driver for the on-trade, and that's why we continue to show our commitment to it.

### **COVID-19: Supporting Our Pubs**

We are doing – and will continue to do – as much as we can to help our pubs throughout this crisis. In addition to all the Government's support and grants to help cover rent, salaries and other fixed costs, Star Pubs & Bars has provided rent concessions (i.e. reduced rent) to all our Leased and Tenanted pubs. Since March 2020 we [have now injected over £62 million](#) into our pub estate in the form of rent concessions, directly benefitting licensees' businesses.

In March 2020, we immediately suspended the collection of rent, trade debt and all associated charges – so none of our Leased and Tenanted pubs have had to pay us rent whilst they are closed in order to help them with their cash flow. In April, we offered each of our pubs a rent concession from 20 March (when the Government closed pubs) through until August. Two thirds of our licensees then received a rent reduction of 50% to 75%, whilst one third received a reduction of 75% or more. The rent concessions applied through until August, so that reduced rent even applied as pubs reopened. For the second lockdown in November we applied 100% rent concessions and then also 90% rent concessions for the month of January. Further details about our rent concessions are available on our website [here](#).

In addition to supporting our pubs with rent concessions, we have also invested in a range of other support measures for our Leased and Tenanted pubs:

- **Replacing out of date stock:** We ensured there was a solution in place, at no cost to our licensees, for out of date beer casks and kegs when pubs reopened – ensuring that licensees were not left out of pocket for beer that was not saleable. This undertaking was designed to provide further reassurance and was of significant financial benefit to our licensees.
- **Advice & Guidance:** We've helped our pubs access the latest government information, and provided free training and advice throughout the crisis (from how to adapt through lockdown, to reopening their businesses again). We did this by setting up a pop-up website called [The Pub Collective](#). Our Business Development Managers have also been at the end of the phone to provide advice to all our licensees during the closure and reopening period.
- **Health and safety point of sale materials:** We've invested a further £250,000 in point of sale material for pubs (e.g. posters, table talkers) to encourage consumers to follow the Government's social distancing guidelines. These materials are available to all of our Leased and Tenanted pubs free of charge.
- **The latest technology:** We have developed and launched a new payment and loyalty app, called Swifty, enabling pub-goers to order from their table. This also helps reduce the face to face contact between staff and customers.

As outlined above, the support we have provided and are still providing, and which represents a significant investment on behalf of Star Pubs & Bars during challenging times for the whole industry, will have a significant bearing on the future sustainability of licensees' businesses – and clearly we want to see our pubs thrive in the long-term. The Leased and Tenanted pub model has enabled us to provide comprehensive support to our pubs during these difficult times. Not all pubs will have received this kind of support from their commercial landlords – and throughout this crisis we have been able to support our pubs precisely because of this partnership.

### **COVID-19: Supporting Communities**

HEINEKEN UK also recognises the need to support communities as well as our licensees, which is why we launched the HEINEKEN Community Fund - a £250,000 donation to help those most impacted by the COVID-19 crisis in the UK. This donation has helped support local charities buy thousands of meals and make sure that the most isolated in society feel a little less alone. In addition, HEINEKEN has donated €15 million to support the International Federation of Red Cross and Red Crescent Societies (IFRC).

### **Brewing Good Cheer**

Finally it is worth mentioning our Brewing Good Cheer initiative. For the last 5 years, HEINEKEN's annual Brewing Good Cheer campaign has sought to shine a light on the important role pubs play in bringing people together and in doing so, help to tackle loneliness. We wanted to further investigate the role pubs play in tackling loneliness and, in collaboration

with the Campaign to End Loneliness, commissioned Loughborough University to research this.

The resulting [Open Arms Report](#) recognises the essential role that pubs play in positively connecting individuals, groups and communities – highlighting that even a conversation with a member of pub staff lasting seconds or minutes can help alleviate feelings of loneliness. **The research reveals that 86% of pub staff surveyed agreed that when a pub closes the local community suffers. It also showed that 85.9% of survey respondents agreed and strongly agreed with the statement ‘When a pub closes the local community suffer’.** Pubs often are the hubs of communities, organising a range of activities that draw the community in. They also often work with and support local charities. The research also highlights the key social role and skills of pub staff and publicans in helping to make sure pubs are inclusive, open and welcoming.

Given the last twelve months, now more than ever, the findings of the Open Arms report demonstrate pubs are much more than places to go for a pint of cask ale (although cask ale certainly helps to bring people in). In fact, focus group participants in the research often mentioned they didn’t drink at all and going to pub was much more about meeting others and socialising.

It’s vitally important pubs will be able to open safely again soon to offer that space for people to come together. We very much welcome the roadmap out of lockdown and the support given by Government to the pub and hospitality sector to date. It will be more important than ever that the sector receives continued support and recognition.

Thank you again for the opportunity to respond, and we wish the APPG luck in this inquiry.

**Guy Mason**

Head of Public Affairs