



## THE FUTURE OF CASK BEER PARLIAMENTARY INQUIRY SIBA WRITTEN EVIDENCE APRIL 2021

### ABOUT

The Society of Independent Brewers (SIBA) was established in 1980 to represent the growing number of independent breweries in the UK. Today SIBA has around 750 brewery members, responsible for 80-85% of the country's independently brewed beer.

SIBA's membership encompasses a broad range of brewers from very small nano-breweries to larger firms owning pubs, taprooms and shops. In 2019 our members produced 493 million pints, approximately 6% of the beer produced and consumed in the UK. The vast majority of UK beer production is in the hands of four global breweries, which account for around 88% of the entire market. The balance in between is made up of other internationally owned brands and a number of large, regional 'family' brewers.

Small breweries in the UK employ about 6,000 full time equivalents and directly contribute around £270 million to GDP each year. The brewing sector as a whole is a major contributor to the Treasury, responsible for approximately 30% of overall alcohol receipts. Small breweries employ a considerable number of people and generate a disproportionate amount of Treasury revenue through other direct taxes as a result. They also contribute directly to local economies, local communities and are forces for good in the world.

The industry has been hit hard by the Covid-19 pandemic, with 200 million fewer pints of craft beer being produced last year with the enforced closure of pubs – representing 10 years of lost growth and a 34% fall in production.<sup>1</sup> In the last quarter of 2020, brewers experienced a 45% fall in sales during the critical Christmas period. Over the past year, we have seen breweries closing for good and more are on the verge of shutting.

### CONTACT INFORMATION

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<sup>1</sup> SIBA Survey January 2021 - <https://www.siba.co.uk/2021/02/12/200-million-fewer-pints-craft-beer-brewed-2020/>



## INTRODUCTION

Cask beer is the UK's national drink. It is a fresh, live, traditional product that is integral to the community pub and to our cultural heritage. The UK's small independent brewers lead the way in producing cask beer and are at the cutting edge of innovation in the sector. It supports thousands of UK jobs across the pub, brewing and supply sectors which are central to local economies and at the heart of our communities.

For some time, cask beer has faced structural issues that have yet to be resolved. Pre-Covid, cask was experiencing a 10% year on year decline because of a range of factors which need to be urgently addressed. These have been brought into sharp focus with the pandemic and the Government's mandated closure of pubs, which has decimated the cask and pub market.

By working in partnership, the industry and Government have a window of opportunity to save cask beer and the jobs and businesses it supports. SIBA strongly believes that through collective action we can transform cask to adapt and overcome the challenges it faced pre-Covid and the new challenges it now faces as we emerge from the pandemic and reopen the economy.

As pubs begin to reopen, SIBA in partnership with CAMRA, BII and Cask Marque, have launched a campaign to promote cask beer in pubs. Titled 'Cask is back, so back Cask' more information on how to support this campaign is available at [www.siba.co.uk/CaskIsBack](http://www.siba.co.uk/CaskIsBack)

In particular, SIBA recommends to the Inquiry that the Government and industry work to:

1. Celebrate cask beer by making 2022 the Year of Cask and for MPs to support the #CaskIsBack campaign
2. Commit to quality at every step
3. Support pubs through lower duty
4. Reverse the changes to Small Breweries' Relief

## WHY CASK MATTERS

At first glance it may appear to some that cask beer is just an antiquated drink dispensing mechanism. But for most people it represents a uniquely British product which has been produced for hundreds of years using traditional methods.

Cask beer is produced by hundreds of specialist and small breweries in the UK, often using British grown hops and malts. Pre-Covid 67% of the beer produced by SIBA members was placed into casks.<sup>2</sup> These breweries pride themselves on their local products and the range of beers they brew. This beer is transported in sustainable and reusable containers (casks) predominately to local community pubs within a local catchment area of the brewery. When it comes to 'beer miles' cask beer is the most environmentally friendly and sustainable way to enjoy beer. With 7 out of 10 drinks bought in a pub being beer, cask beer is synonymous with the pub and tied to its fortunes.

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<sup>2</sup> SIBA Craft Beer Report 2020 - <https://www.siba.co.uk/SIBA-British-Craft-Beer-Report-2020.pdf>



It is a vital and local source of employment with each brewery on average employing 4 full time and 1.7 part time members of staff, with 38% living in the same town or village as the brewery.<sup>3</sup> More broadly small breweries in the UK employ about 6,000 full time equivalents and directly contribute around £270 million to GDP each year.

## PRE-COVID

As a natural and fresh product, often produced in smaller batches and with a short shelf life, cask beer has faced significant structural challenges pre-Covid. In particular on quality, perception, market access and commercial viability.

Quality is key and needs to underpin every aspect of the production, transport, cellaring and serving of cask beer. Having a bad quality product fundamentally undermines consumer confidence and has a negative spiralling effect on the perception of the beer, pub and brewery. Surveys have shown that 70% of all ale drinkers say they have been served off or stale beer, leading to 40% avoiding that pub, 39% staying away from that brand and 37% telling their friends to do the same.<sup>4</sup>

Quality can be affected at a number of points within the journey of a cask of beer, from brewery to pint and to the untrained it is often difficult to diagnose where issues can arise. What is required is that every pint that leaves the brewery to be at its best and for pub staff to be fully trained to ensure that the product is kept well, served and understood. There are a number of industry schemes that aim to tackle quality at every level including our own Food, Safety Quality (FSQ) audit of brewery process, record keeping and hygiene.

Once a cask is opened or 'broached' it is recommended that its full contents of beer (ordinarily containing around 68-70 pints of saleable beer) all be sold within three days, equating to 23 pints of beer a day.

Cask beer has been unfairly labelled and characterised as old fashioned and there is work for the industry to do to demystify and explain its relevance for modern customers. There are dozens of examples of breweries that have effectively 're-branded' cask for the modern age and are attracting new kinds of consumers to it. The language that is used and the way cask beer is positioned, promoted and sold can put some consumers off as well as historical associations with it. Surveys have shown that customers are interested in what cask beer already represents, which is beer that's produced locally and on a small scale and with a wide range of styles.<sup>5</sup> Indeed it is the *original* craft beer. One third of consumers also want a beer with a lower carbon footprint, which local small brewers already provide (given the small brewery's proximity to the pub). More needs to be done to emphasise cask beer's positive credentials and get this story across.

Price pressures and the UK's relatively higher duty levels for beer compared to Europe undermines the commercial viability of cask beer and the breweries brewing the beer. Evidence shows that there is a significant gap between the price of cask beer and other beers and, despite recent freezes in beer duty, the UK still pays one of the highest duty rates in Europe with 54p in duty on a pint of beer compared to 5p in Germany. There is more the Government could consider to support the industry around duty and that the industry can do to premiumise cask beer in their pubs and with the public.

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<sup>3</sup> Ibid

<sup>4</sup> The Cask Report 2019/20 - <https://mk0caskmarqueqadnvg.kinstacdn.com/wp-content/uploads/2019/09/Cask-Report-2019-20.pdf>

<sup>5</sup> The Cask Report 2019/20 - <https://mk0caskmarqueqadnvg.kinstacdn.com/wp-content/uploads/2019/09/Cask-Report-2019-20.pdf>

While numerically around 80% of pubs are small businesses, a significant part of that market is closed to small breweries because of the tie, pub operating models and contracts many enter into. Therefore many are limited both in the range of cask beer they can offer to their consumers and further constrained in the way in which it can be purchased. This is why many small breweries have now created their own direct sales channels with three in four operating a shop, tap room or a visitor centre on the brewery site.<sup>6</sup> These could play an important part in the Government's levelling up agenda.<sup>7</sup>

## IMPACT OF COVID-19

The pandemic, along with the Government mandated closure of pubs, has had a detrimental and long lasting impact on small breweries and the community pubs they support. Small breweries saw a 34% fall in production last year, which represents 10 years of lost growth.

While the financial package of support from the Government has been significant, there have been limitations on its reach, scale and scope particularly given the restrictions imposed on the hospitality sector and the resilience of Covid-19 and the variations between devolved administrations. Small breweries have not received the same level of support as the wider hospitality sector, including business rates holidays and direct grants. Often they have had to rely on a postcode lottery of local authority discretionary grants. SIBA's survey has shown that only a third of small breweries in England have been able to access any support through the Local Restrictions Support Grants or Additional Restrictions Grants.<sup>8</sup> Whilst wet-led pubs have seen some direct support, those who do not have viable outdoor space will continue to be harmed until Covid restrictions are removed.

This contrasts to the situation in Scotland, where the Scottish Government has introduced, with SIBA's support, a Brewers Support Fund worth up to £30,000 per small brewery.<sup>9</sup> Because of this lack of support and reduction in sales, some small breweries have closed their doors for good and others may not survive the reopening of the sector expected in the Summer because of the lack of cash flows to produce beer and delays in getting paid. This means that the expertise, local jobs and businesses as well as the range of cask beer will be reduced.

There is a widespread perception amongst our industry that the Government's approach during the pandemic has often appeared to favour larger chain businesses, such as supermarkets and larger hospitality companies, rather than small businesses such as breweries and community pubs. Whilst the VAT reduction to 5% and the Eat Out to Help Out schemes were a boost for the sector as a whole, they did not assist the community wet-led pubs that small breweries rely on as the scheme did not include alcoholic drinks.

The sector also had to dispose of around 87 million pints of beer, with 6 million from small breweries, that could not be sold. While small breweries can claim back the duty element of this spoilt beer they did not receive any compensation for the materials, staff time or cost of production, further damaging their financial position.

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<sup>6</sup> Craft Beer Report 2020 - <https://www.siba.co.uk/SIBA-British-Craft-Beer-Report-2020.pdf>

<sup>7</sup> Studies in the USA have shown that the presence of craft breweries and taprooms are linked to greater investment and the revitalisation of neighbourhoods. In Buffalo in New York, they have adopted the term "beer-orientated development" to describe the pivotal role that craft beer can play in the local community. For example – Neil Reid, 2017, Urban Development Issues - <https://content.sciendo.com/view/journals/udi/57/1/article-p5.xml?language=de&result=9&rskey=8sSQvL>

<sup>8</sup> SIBA Survey January 2021 - <https://www.siba.co.uk/2021/02/12/200-million-fewer-pints-craft-beer-brewed-2020/>

<sup>9</sup> <https://findbusinesssupport.gov.scot/service/funding/brewers-support-fund>



This disposal has had and will continue to leave a lasting psychological impression on landlords across the country. Landlords were for the first time in many cases authorised by breweries and by HMRC to dispose of this beer themselves throughout successive lockdowns. This has caused and will continue to cause a perception that Cask Beer, because of its shorter shelf life when compared to macro lager (3 months unopened, 3 days opened) is a risk to purchase and a risk to take on if they are unable to sell that critical 23 pints a day to ensure the beer remains in good condition. Continuing restrictions on pubs including outdoor space only and other restrictions across the devolved nations will only exacerbate this hesitance to stock cask, despite consumers demanding it. We know that pubs that 'take the risk' on cask beer will reap the reward and that this should not, inherently be perceived as a risk. Because cask beer is intrinsic to pubs.

Spoilt beer that had to be poured away also counted towards production volumes for the purposes of the Small Breweries' Relief (SBR) scheme. SBR enables small breweries to pay a proportionate amount of beer duty to the Treasury, but the amount a small brewery pays is based on the total production for the previous year. Spoilt beer, even if it never left the brewery and remained in duty suspense, in due course being destroyed, will count towards this year's production volume thereby penalising brewers who have borne the cost of first producing then destroying the beer. HMRC has refused to change the rules so that this can be excluded from production volumes or provide a tax relief for the cost of producing beer which had to be destroyed.

During the Covid crisis, the Government has also proposed changes to SBR which will have a negative impact on small breweries. In July 2020 the Treasury announced that the threshold for the 50% duty rate will be reduced from 5,000 hectolitres (approximately 900,000 pints and enough beer to supply 15 pubs for a year) to 2,100 hectolitres.<sup>10</sup> This change is due to be introduced in January 2022 and could mean that 150 small breweries have to contribute up to an additional £44,000 per year to the Treasury.<sup>11</sup> This puts their recovery, and the cask beer they provide, at risk.

## REOPENING

Community pubs, and the small breweries supporting them, face an uncertain future. Even when pubs are allowed to start reopening, Covid restrictions will continue until at least the summer if not longer and consumer confidence will take a considerable amount of time to return. We in industry are all trying to determine what the 'tail of demand' will look like after June and July as well as what summer trading with restrictions in place will look like.

With restrictions in place, a reduced capacity pub is likely to have a more limited range of products on sale, at least initially. They will also be fearful from the experience last year that new restrictions could be imposed by the Government at short notice, despite the intention that this roadmap is a linear one. We have seen this through the discussions around Covid Status Certification. This could mean that they favour some types of beers, such as those provided in kegs which have a potentially longer shelf life, to others, such as beer provided in cask. As SIBA members packaged the majority of its beer into casks and the keg lines are not easily accessible to our members, this will put small breweries under a significant disadvantage.

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<sup>10</sup> <https://questions-statements.parliament.uk/written-statements/detail/2020-07-21/HCWS400>

<sup>11</sup> In January 2021, the Treasury [published](#) its technical consultation which outlines five new models, which could see small breweries in the worst case scenario contributing up to £44,000 extra per year, whereas breweries many times larger benefit up to £145,000.



Cash flow for brewers is tight as most operate on a just in time basis. Brewers will struggle to restore this cash flow to pay suppliers but also to compensate for the 30 day payment periods from customers. It can take 60 days or more for brewers to start up, brew, deliver beer to customers and then receive payment.

When pubs reopened in July 2020, Global producers were able to provide replacement beer free of charge. Because of this, an expectation was 'set' amongst landlords that all producers were able to match this offer. Many small breweries were asked to do the same and we have had reports that some of those who were unable to do so, because of financial constraints, then lost future business with these venues. This is likely to be repeated this year when pubs are allowed to reopen once again and will limit the range of cask beer on offer and the opportunity for small breweries to rebuild their businesses.

## RECOMMENDATIONS

SIBA would ask the MP Inquiry to consider the following recommendations that will allow the sector to recover from the Covid-19 pandemic, address the structural issues that exist and ensure that cask beer, small breweries and community pubs have the opportunity to survive and thrive.

### 1. Celebrate cask beer by making 2022 the Year of Cask and for MPs to support the #CaskIsBack campaign

Consumer confidence will take time to return and we need to encourage people to feel safe in returning to the pubs and to enjoy cask beer. A national campaign to celebrate and change the way that cask beer is perceived like the one SIBA is running with other bodies call Cask Is Back ([siba.co.uk/CaskIsBack](http://siba.co.uk/CaskIsBack)) and encourage people to try it would help to restore confidence and recovery in the sector following Covid.

### 2. Commit to quality at every step

Quality is key to ensuring that consumers get a pint that is well-conditioned, at the right temperature and sold by a knowledgeable publican. The Government can support quality by helping to fund SALSA accreditation or SIBA's own Food Safety and Quality Scheme (FSQ) so that every small brewery has access to an affordable way to improve the quality of the beer they provide. The Industry should also work together to ensure that all pubs are fully trained and work with organisations like the BII and Cask Marque on dispense, cellaring and serving training.

### 3. Support pubs through lower duty

Duty is a significant part of the price of a pint. The Government can directly support cask beer, pubs and small breweries by fully considering a differential rate of duty for draught beer. Such a scheme could allow the Government to lower tax on beer sold in pubs as compared to supermarkets and encourage people to visit the pub.

### 4. Reverse the changes to Small Breweries' Relief

Small Breweries' Relief (SBR) is responsible for the transformation of the beer industry in the UK. However the Government is imposing changes which will result in 150 small breweries having to contribute more to the Treasury, putting jobs and their businesses at risk. The Government should commit to reform above 5,000hl but not reducing relief for any brewery below this level.