

**John Ellis, D.M.S., M.B.I.I.** Crown Inn, Oakengates  
(Best Cask Beer Pub, West Midlands & Wales and National Finalist, Great British Pub Awards) and Elephant & Castle, Dawley

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I understand you are gathering evidence to submit to the A.P.P.B.G.'s enquiry into the future of U.K. pubs. I urge you to consider the massive subsidy given to supermarkets by the Government to sell alcohol at a loss.

Many people are not even aware of the subsidy that the supermarkets receive from the Government and I suspect that The Treasury has never calculated the cost. It is akin to the underpayment of tax by the Googles, Starbucks and Amazons of the world. Let me explain. If the supermarket buys a bottle of spirits at, say, £15 & VAT and sells it at, say, £12 & VAT, then it makes a loss of £3 & VAT on the sale. The VAT loss amounts to  $£3 \times 20\% = 60p$  and that is set off directly against the supermarket's VAT payments. The remaining loss (£3) can be dealt with in a couple of ways:-

- 1) It can set off the loss against its Corporation Tax liability, meaning the whole of the loss (£3 plus 60p VAT) has been paid for by the taxpayer; or
- 2) The supermarket can effectively choose where it pays its VAT (just like the multi-nationals mentioned earlier). Using its well-trodden phrase "alcohol is just sold as part of a basket of products", the supermarket industry chooses to cross-subsidise its VAT-able alcohol sales against non-VAT-able products. In other words, it uses loss-leading alcohol to reduce its VAT-able sales value, while increasing prices in its non-VAT-able aisles. The customer pays more for non-VAT-able items, such as food, while reducing its VAT and Corporation Tax liabilities as in (1) above. Meanwhile, true food-price inflation is increased.

Consider the current pricing policy in several supermarkets, where 4 x 660ml bottles of 4.8% beer are available for £6 inc. V.A.T. This equates to £5.00 & VAT per 2.64 litres. The alcohol duty on this equals 8.42p/percent ABV/litre; i.e.  $8.42p \times 4.8 \times 2.64 = £1.067$ , leaving £3.933 or 98.3 pence per bottle for the growing and harvesting of the barley and hops, the huge amount of water and energy used in brewing, the cost of providing the bottle, the metal cap, the cardboard tray and the plastic wrapping, the transport from the brewer to the depot, the warehousing, the transport from the supermarket's warehouse to its individual shop, the stacking of the shelf and the checkout costs.

Equally, most of the big supermarkets have recently been selling litre bottles of 40% spirits for £15 including VAT. This equates to £12.50 plus VAT, while the Alcohol duty on a 40% bottle is £11.50. This leaves exactly £1 to cover all the additional costs, as stated above, often including import duties. In addition, alcohol sales can then be used to collect Nectar / Clubcard / Miles points, etc. for further discounts on items such as fuel.

The net result is that, even excluding the environmental costs of disposal of the glass, metal, cardboard and plastic, alcohol sales are used as a loss-leader in supermarkets. I contend

that it should be illegal to sell any licensed drug at a loss, except perhaps in certain medical conditions. Imagine if the supermarkets decided to loss-lead on tobacco, selling packets of cigarettes at £5 per packet. There would rightly be public uproar.

The Government has previously made unilateral changes to Premises Licences and could easily make such an alteration to the provision of off-sales, prohibiting the sale of alcohol or tobacco at a loss. In the same way, they could also be banned from using alcohol sales to gain loyalty benefits. Existing VAT rules could be amended to allow for separate reporting of alcohol and tobacco sales, making it impossible to cross subsidise any losses. Enforcement could be carried out through the Retail Ombudsman and Trading Standards. We all know how supermarkets check each others' prices. They would be keen to make sure their competitors do not have unfair advantages!

The sale of subsidised alcohol is a major factor facing pubs at the moment, even award-winning ones such as mine. Most publicans recognise that our real competition comes not from other pubs, but from people staying at home with subsidised alcohol and it is time that Parliament recognised this problem. I believe that the electorate would be appalled at the current situation and do not believe that this country is so awash with money that it can afford to subsidise the supermarkets to sell alcohol at a loss.

I look forward to hearing that you have made this evidence to the A.P.P.B.G. and I am happy to discuss this further, if required.