NOffLA
Block D Unit 6,
Nutgrove Office Park,
Rathfarnham,
Dublin 14.

Mr Ronan Murphy,
Clerk to the Budgetary Oversight Committee,
Leinster House,
Dublin 2

09 May 2019

Re: Excise Duty in Budget 2019

Dear Mr Murphy,

I write to you as Government Affairs Director of the National Off-Licence Association (NOffLA), representing the independent off-licence sector in Ireland, to request that the Budgetary Oversight Committee conduct a review of Emergency Taxation Measures, namely Excise Duties. NOffLA is advocating for a 15% reduction in the level of alcohol excise duty over a two-year period, and would welcome a discussion at the Committee on our proposal.

We believe that the recommendations outlined in our submission will not only provide much-needed security to the 92,000 jobs associated with the drinks sector as a whole but will protect the remaining 5,900 off-licence jobs (having lost 3,000 or 34% since 2008). With the genuine potential to create jobs (NOffLA estimates that our proposal would create 1,785 jobs in its sector) this would reinvigorate local communities, where the recovery has failed to materialise.

We believe that alcohol and our industry has, for too-long, been considered as an 'easy target' and somewhat of a 'bottomless pit' of revenue for the Exchequer. Ireland's average alcohol price is 175% higher than the rest of the EU, however, it should be noted that higher taxes do not always generate higher revenues, as consumers shift their purchasing practices to less expensive products, or buy abroad (with VAT revenues decreasing).

Furthermore, excise duty increases are also ineffective as a tool for reducing alcohol consumption, due to the ability of large mixed traders (who account for 80% of off-trade sales) to absorb tax increases, and continue to promote alcohol as a footfall driver to sell other more expensive necessities. Independent off-licences cannot afford to absorb excise increases, unlike large mixed traders, as alcohol is their sole product, thus further highlighting the unequal trading environment that specialist off-licences are now operating in. This has forced our indigenous sector of specialists who only sell alcohol, to the brink of commercial failure.

With regards to ensuring the responsible retailing of alcohol in Ireland, NOffLA believes that the introduction of Minimum Unit Pricing within the Public Health (Alcohol) Act 2018 will make great strides to this effect.

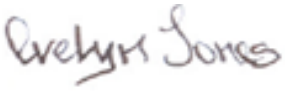
Independent off-licences act as a vital component in local communities throughout the country, whereby outlets tend to be locally operated SMEs, investing and employing locally, and monitoring responsible drinking within

their communities. However, the independent off-licence sector has yet to enjoy the benefits of the economic recovery, experienced by similar-sized SMEs, primarily owing to the regressive level of excise duty imposed on alcohol. This was evidenced in our 2018 Member's Survey, where 83% of respondents noted that their turnover in 2017 was either down or experienced no change when compared to 2016.

In order to protect Irish businesses and the tourism upon which they rely, shield border communities, and the independent off-licences in such areas, NOffLA believes a reduction in excise duty is absolutely vital.

NOffLA would welcome the opportunity to meet with the Committee to discuss in more detail how these measures could generate revenue, reinvent the sector and local communities, create jobs and protect against the implications of Brexit.

Yours sincerely,



EVELYN JONES
Government Affairs Director

NOffLA Submission to the Oireachtas Budgetary Oversight Committee:
Emergency Taxation Measures

Introduction

The National Off-Licence Association (NOffLA), representing the independent off-licence sector in Ireland, makes the following submission to the Oireachtas Budgetary Oversight Committee, to highlight the failure of the current economic recovery to encompass our sector due to the **regressive levels of excise duty imposed on alcohol. This has knock-on implications including the rise of illicit and black-market trading, an unequal trading environment for specialist off-licences, and a stifling of employment in local businesses throughout the country**.

*NOffLA is calling on the Oireachtas Budgetary Oversight Committee to conduct a review of Emergency Taxation Measures, **namely Excise Duties**.*

There is cross-sector consensus that draconian emergency taxation policies must be rolled-back. Conscious of the Department of Finance's fear of reduced taxation revenues in light of Brexit, NOffLA is recommending that **Government reduces the level of alcohol excise duty by 15% over a two-year period and equalises the level of wine excise with that of beer and spirits**. Government is now progressing responsible, targeted alcohol pricing policy which will reduce alcohol-related harm. As such, it is incumbent on policymakers to ensure that ineffective consumption-control measures which damage local businesses are rescinded.

It is imperative that the Government intervenes to protect the remaining 5,900 jobs in our sector (having lost nearly 3,000 since 2008), and which remains perilously close to commercial failure as a result of the excise duty increases in Budget 2013 and Budget 2014. The continued decline of the independent off-licence sector will have detrimental consequences for the localities in which they operate, as these independent off-licences are locally owned and hire locally, therefore ensuring the town's money is recirculated locally, and thus maintaining the local economy, rather than the profits leaving the country as is the case with larger international supermarkets, convenience stores and petrol chains.

In this context, NOffLA believes it is essential that a review of the current alcohol products taxation policy be conducted as a means of protecting the current employment levels in the sector and of creating conditions for increases in staffing and employment. We would welcome the opportunity to meet with the Committee to discuss in more detail how the below measures could generate revenue, reinvent the sector and local communities, create jobs and tackle irresponsible alcohol consumption.

Employment

Excise duty is a significant cost to businesses in Ireland, and directly impacts employment. While increases to the levels of excise duty charged on alcoholic goods satisfied a short-term need for liquidity, Ireland's economy

has taken a strong turn in recent years, with renewed consumer confidence and strong growth predictions, notwithstanding uncertainties regarding Brexit[1]. However, the recovery has not yet been felt universally in Ireland, and following the UK's June 2016 Brexit referendum, another layer of complexity and uncertainty has been added to Irish SMEs throughout the country.

Ireland's excise regime now both stifles employment levels and actively threatens border communities and the off-licences operating within them. Unlike other taxes, the impact of excise is immediate, requiring up front funding from midnight on Budget Day, with the uncertainty surrounding its fluctuation from year to year preventing medium to long term business planning in terms of job creation; expansion of product offering; and the upgrading of equipment and premises.

Reductions to excise duty would lower the costs of doing business for our independent off-licences, directly creating jobs and boosting the recovery in small town settings. This was highlighted in our most recent Members' Survey in which nearly 37% of participants responded that they would hire more employees were excise duties to be reduced; of these, nearly one third would increase staffing by more than one person. A further 39% responded that they would increase existing staff salaries and 24% said they would expand the business.

Figure 1: Actions NOffLA Members would be forced to take should Excise Duty be increased

[1] Central Bank of Ireland, Quarterly Bulletin, October 2018

We estimate that **at least 1,786 jobs would be created in our sector** were excise duty returned to 2012 levels. As such, losses to the exchequer from excise duty reduction would in fact be off-set by increased income taxation revenues.

This is because excise is directly correlated to cash flow and excise strains working capital for our businesses. Funding an excise increase in the current economic climate is a constant struggle for importers and retailers alike as credit is not available. **Ultimately, shedding jobs is the only way to release the required funds, particularly now with the tightening credit market for SMEs and micro-SMEs of which NOffLA's membership is comprised.**

Take for example, the average retail managers wage of **€34,105** (including employers' PRSI) - a retailer/importer must generate €92,822.69 for duty, plus VAT payments in order to sell product to pay that wage, a €35,433.03 increase on 2012 levels. (See fig. 2 for a breakdown of necessary capital required for staff retention).

CASE STUDY: EXCISE & STAFFING - 2019

€22,212 - €35,433 Extra Money Required for Excise and Vat to Retain One Staff

- To hire a new employee on the minimum wage costs an employer **€22,212.56 per year** (Eurostat average minimum wage rate plus Employers PRSI of 8.5%).
- To generate cash just to pay this salary an employer **must purchase and sell 1,306.62 cases of wine**, requiring funding of €61,449.50 to pay duty plus VAT. Prior to Budget 2013, this payment **would have been €34,248**, an **extra €27,201**
- To hire a new employee as a manager costs an employer **€34,105.55 per year** (Eurostat average wage rate plus Employers PRSI of 10.75%).
- After the excise increases in order to pay existing employees on a similar wage, the employer must now find **€35,433** extra to pay the excise duty required to continue to pay their wages.
- Often this creates critical business risk in hiring an employee who may not achieve the required sales revenue to generate the salary, while it makes overriding commercial sense to reduce staff to maintain a positive cash flow.

Sales required to pay wages: (using average bottle price of €8.64 ex vat) Eurostat

	Minimum Wage	Retail Manager Wage
Wine	**1,306.62 Cases**	**1,973.70 cases**
Sales	€135,471.02	€204,632.76
Purchases	€112,892.54	€170,527.30
Gross profit	**€22,578.58**	**€34,105.46**

Excise and VAT payments to generate €22,578.58 minimum wage (1,306.62 cases of wine)

	Excise	VAT	Total	% Increase
2019	€45,036.18	€10,358.32	€55,394.45	
2012	€27,844.61	€6,404.26	€34,248.87	
Differential	€17,191.57	€3,954.06	€21,145.58	**+61.74%**

Excise and VAT payments to generate €34,105 Average Managers Retail Wage (1,973.70 cases of wine)

	Excise	VAT	Total	% Increase
2019	€75,465.60	€17,357.09	€92,822.69	61.74%
2012	€46,658.26	€10,731.40	€57,389.67	
Differential	€28,807.34	€6,625.69	€35,433.03	**+61.74%**

Cross-Border Trade

Brexit presents a significant threat to many independent off-licences, particularly in border communities, who are already suffering from a weakened Sterling and far higher levels of excise duty and VAT (similar to 2008). This can be seen in an analysis of revenue and consumer spending in 2008/2009 showing that over €1 billion was lost due to cross-border shopping when Sterling was similarly devalued – of this, €200 million was lost to Government in VAT and excise foregone as well as €800 million lost to the retail sector and its suppliers.

Opponents of Minimum Unit Pricing will argue that the policy will exacerbate the issue of cross border trade. MUP on an all-island basis, however, will not stop cross-border trade. **Excise duty has, and will continue to be, the main determinant of cross-border trade.** Government is now progressing responsible, targeted alcohol pricing policy in the form of MUP, and so we must look to roll-back the draconianly high levels of excise charged in this country, which has shown to be wholly ineffective as a consumption-control measure. This would also dramatically reduce the levels of cross-border trade.

The reality of excise fuelled cross-border shopping has been evidenced by the stark increase in the number of Irish registered cars in border shopping centres since 2016. Cross-border trade rose to 61% in Q3 2018, which is up dramatically from even Q2 of the same year (51%), placing further strain on our members, particularly in the border counties. This figure does not include Christmas trade in 2018, but even still the Q3 figure shows an alarming increase, approaching the levels of 2008, when we had the highest ever recorded percentage of Irish registered cars (67%), in Northern Ireland shopping centres.[2]

Whilst the impact on tax intake is significant, the multiplier impact in terms of revenue lost across the regional Irish economy is four times greater. Unless action is taken in the short-term, these losses in tax and Irish economy spend are only a small taste of the impact on jobs and exchequer returns that Brexit will bring to our sector. In fact, in a November 2018 membership poll by the AA, over 35% of Irish respondents reported that they intended on leaving the country between then and Christmas to shop, with a further 7.85% stating that would not rule out shopping outside the State. Over 10% indicated their intention to travel to Northern Ireland, which is an increase compared to 2017. Of those who responded, outside of gift shopping, 37.79%% reported they were travelling to Northern Ireland to buy alcohol.[3]

Reducing excise duties by 15% over a two-year period would go a significant way towards dampening the demand for cross-border shopping.

Illicit Trade

Excise duties are not only damaging Irish SME's commercial operations, but they are often also an ineffective means of gathering revenue for the Exchequer. This has been evidenced in recent releases from the Department of Finance, which show that excise taxes collected in February 2019 were €11 million or 2.7% below target. Furthermore, according to the Government's latest figures, excise collection is down from the same period last year, which NOffLA believes is as a direct result of the weakening Sterling. Government cannot control the fluctuation of the Sterling, but it can reduce excise duties to negate the need for illicit trading.

[2] Ibid

[3] *https://www.theaa.ie/blog/10-percent-plan-cross-border-shopping-trip/*

In February 2015, the British-Irish Parliamentary Assembly heard that "illegal cross border trade continues to damage the livelihood of our members, prop-up criminal gangs and deny the State the revenue it's due", noting that "commodities that attract high levels of excise duty were a particular challenge".[4] This is now on the increase once again, as the devalued Sterling and asymmetrical excise regimes between the North and South of Ireland acts as a catalyst for increased activity.

NOffLA's concerns are supported by a Grant Thornton report, *Illicit Trade, 2015-2016: Implications for the Irish Economy*, which found that any increase in excise duty which drives up the final price of local and imported alcoholic beverages, will in turn increase demand for cheaper products supplied by the illicit market. The estimated loss to the Exchequer due to the illicit trade of alcohol amounted to €165 million, while revenues lost by retailers were estimated at €491 million – €655 million to the economy as a whole.[5]

Alcoholic products are often prime targets for counterfeiters in the European market, largely due to their brand value, high tax and the excise component of the final price. According to the Revenue Commissioners, the number of seizures of counterfeit and contraband alcohol in Ireland has increased from 282 in 2008, to 1,819 seizures in 2017, a more than six-fold increase in 9 years (see fig. 3 for a depiction of the rise in revenue seizures).[6]

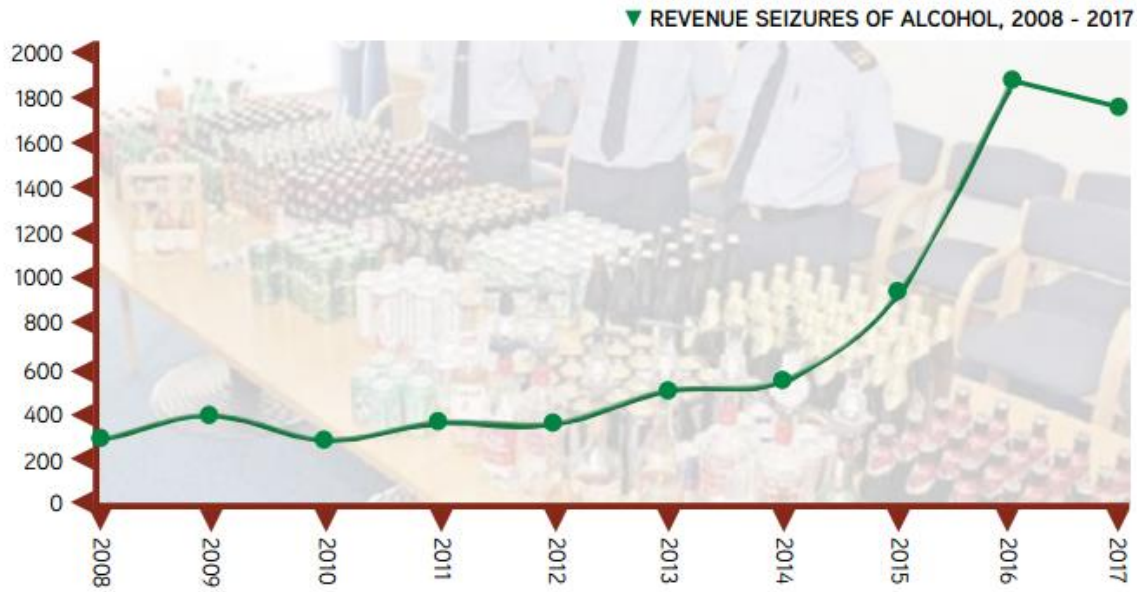


Figure 3: Revenue Statistics on the rise of seizures

Data on this topic suggests a direct correlation between the size of the illegal market and the level of tax or excise duty in relation to disposable incomes. Considering the likely negative economic implications of Brexit, most notably a reduction of 3-5% in GDP and a drop in those employed by 40,000 – 80,000 according to the Central Bank and ESRI official estimations, counterfeiting and cross-border trade is likely to increase in the

[4] British-Irish Parliamentary Assembly Report on Cross-Border Police Cooperation and Illicit Trade, February 2015
[5] *Illicit Trade, 2015-2016: Implications for the Irish Economy,* (Grant Thornton, 2016)
[6] http://www.revenue.ie/en/about/publications/annual-reports.html

coming months,[7] placing further strain on our small businesses. Additionally, squeezed wallets and inflated prices can offer an open invitation to criminals selling counterfeit or illicit alcohol products.

Reduction of Credit Facilities

The level of excise duty charged in Ireland is directly correlated to cash flow, as it puts a strain on working capital. Funding goods under Ireland's excise regime, within the present commercial environment and with the increasing costs of doing business, is a constant struggle for the many micro-SME NOffLA members. This has become increasingly acute in recent years due to the reduction in credit facilities provided by banks to small Irish SMEs such as NOffLA members – at present credit is simply not available to businesses such as ours.

This fact was recently highlighted in a publication by the Central Bank of Ireland, in which SME lending statistics show that despite an overall rise in the level of lending to SMEs, the rejection rate on bank finance applications increased from 8.2% in March 2017 to 13.9% in September 2017, compared to the same period last year. This fact has recently been highlighted through our annual Members' Survey, showing that nearly half of members are currently experiencing cash flow issues, with 48% having had their bank facility cut in the past year, resulting in 45% of members struggling to finance day to day operations and pay creditors on time.

According to the dataset released by the CBI, firms with fewer than 10 employees (micro firms) were worst affected, with a large increase in the year-on-year rejection rate, jumping from 18% in March 2016, to 28% in September 2017 (see fig. 4).[8] In fact, bank rejection rates for SME loans and/or overdrafts in Ireland are over twice the rates in comparator countries. As such, considering that one-quarter of all micro SME credit applications are now being rejected, the Central Bank has reported that only 23% of micro-SMEs now look to banks as a source of credit, as they are forced to look elsewhere, which can often carry increased risks and increased charges attached to the short-term loans.

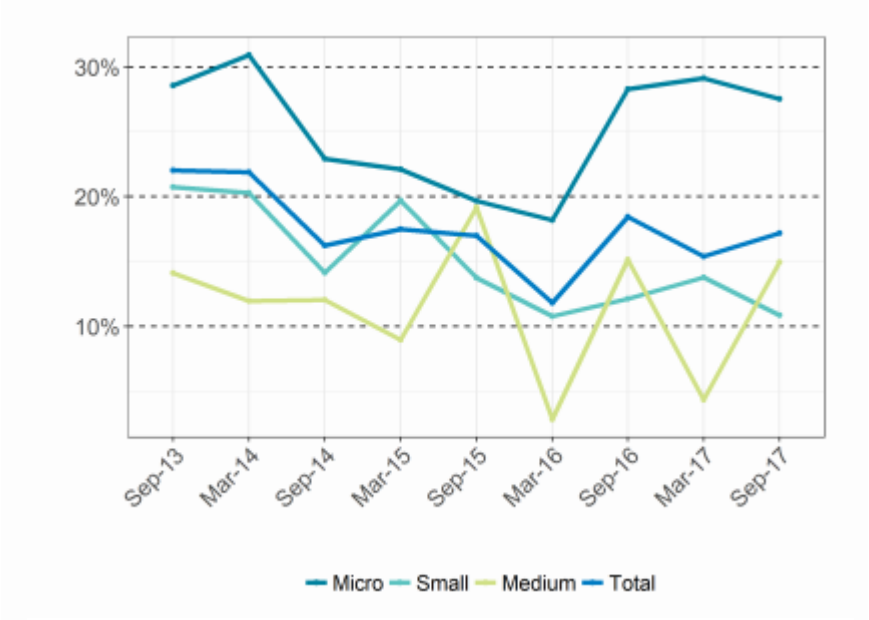


Figure 4: Bank finance rejection rates, March 2012 – September 2017

[7] Gabriel Fagan, Chief Economist to the Central Bank of Ireland, Opening Statement to the Seanad Committee on Brexit
[8] Central Bank of Ireland, SME Market Report, 2018, https://www.centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2018.pdf?sfvrsn=6

The growing trend of banks supplying only larger SMEs with credit at the cost of smaller operators further exacerbates the unequal trading environment NOffLA members find themselves in, which will ultimately result in a further decline of local owner operated and employing businesses. This is of particular note considering the lack of availability of credit outside of traditional sources, given that the three main lenders – AIB, Bank of Ireland and PTSB continue to account for 82% of the market.

The impact of these credit restrictions on all segments of the drinks sector cannot be understated, as excise duties are frequently payable at the point of entry or within 30 days whilst stock turnover is on average 60 days. Credit funding for this upfront cash requirement is simply not available, and so **letting staff go becomes the only financial option**.

Since the excise increases of Budgets 2013 and 2014 NOffLA members who purchase from wholesalers have had their traditional 60-to-90-day credit terms cut to 30 days, as wholesalers must also pay the increased excise to the Revenue Commissioners. Within the strict credit environment, reduced wholesaler credit terms came at the same time as reduced credit from banks, and as 48% of our members experienced bank credit facilities reductions. In addition to this credit reduction by the banks, existing overdrafts were converted to term loans resulting in an additional drain on off-licence cash-flows.

It has thus become unfeasible for off-licences to carry as extensive a range of products as they did prior to the excise duty increases, as not all products will sell within a 30-day period, with unique, better quality or niche products being the first to be delisted as these products tend to have the slowest turnover. As a consequence of excise increases, consumer choice has been eroded, with many NOffLA members citing delisting of products as a direct result of a decline in credit and related business.

Ban on Below Cost Selling

One of the main reasons our sector is struggling so much can be attributed to the unequal trading environment in which we find ourselves operating. Independent off-licences across the country, who only sell alcohol, cannot compete with large multinational supermarkets who have the ability to absorb tax increases on popular products (by as much as 68%) to retain low alcohol prices as a loss leader to encourage the sale of dearer household necessities.

The 1987 Groceries Order made it illegal to sell any good below its invoice cost price. However, the Groceries Order was repealed in 2006, making it legal to retail alcohol below cost. This has set a dangerous precedent as alcohol is a controlled substance and the sale of alcohol below invoice cost promotes excessive drinking as it is typically sold in large quantities, such as 'buy two 20 packs of premium branded beer for €25', as well as encouraging consumers to maximise the quantity of alcohol available within their price-range (i.e. a young male purchasing 5 cans of beer with his €10 is likely to buy 8 cans if they are on sale for the same price).

Attempts by Government to reduce consumption through the increase of excise duty have failed to date, considering that recent reports by Alcohol Action Ireland and the Health Research Board, indicate that Ireland's per capita consumption has trebled over the past four decades.[9]

[9] Health Research Board, Alcohol consumption, harm and cost in Ireland, 22 June, 2016.

How this occurs is succinctly explained by the University of Sheffield's School of Health and Related Research study[10], which found that UK Supermarkets under-shift price rises on selected alcohol products in response to tax increases, accounting for as much as 68% of their total alcohol sales in some categories (i.e. they absorb the increase of a tax to maintain the low prices on their cheapest alcohol for consumers).

According to the study, "this is likely to impact negatively on tax policy effectiveness, because high-risk groups favour cheaper alcohol and under-shifting is likely to produce smaller consumption reductions".[11]

As such, attempts to employ excise duty as a means of limiting consumption, or raising off-licence fees to reinforce the contention that there are significant responsibilities associated with the sale of alcohol, as was recently proposed by members of Government, have resulted in the damaging and unintended consequence of putting responsible specialist retailers who cannot absorb the increases out of business, thus driving more consumers towards the discount-priced alcohol available in supermarkets.

The **commencement of MUP would have a significant and positive impact on the Exchequer, through dramatically reducing the level of below cost selling in Ireland, which results in €24 million of VAT rebates per annum**. As you will see from the below table, for the majority of non-premium products, the Minimum Unit Price will be higher than the invoice cost. As such, due to the MUP, retailers will not be able to sell alcohol below invoice cost, thereafter reclaiming VAT through a rebate system.

Below Invoice Cost Ban versus Minimum Unit Pricing			
Product	**Invoice (Cost + VAT)**	**Minimum Unit Price (@ €1.00 MUP)**	**Most Effective Pricing Regulation**
Bavaria Lager 500ml Can (5% ABV)	€1.07	€1.97	Minimum Unit Pricing
Guinness Draft 500ml Can (4% ABV)	€2.15	€1.58	Below Invoice Cost Ban
Nostrova Vodka 700ml Btl (37.5% ABV)	€17.20	€20.71	Minimum Unit Pricing
Absolut Vodka 700ml Btl (40% ABV)	€23.48	€22.09	Below Invoice Cost Ban

Conclusion

From an independent off-licence perspective, the current excise regime in Ireland is stifling local enterprises across the country, preventing them from scaling-up activities and thus increasing employment; increasing the incidence of illicit and (more recently) cross-border trade; and in certain cases, is putting NOffLA members at

[10]Ally, A. K., Meng, Y., Chakraborty, R., Dobson, P. W., Seaton, J. S., Holmes, J., Angus, C., Guo, Y., Hill-McManus, D., Brennan, A. and Meier, P. S. (2014), "Alcohol tax pass-through across the product and price range: do retailers treat cheap alcohol differently?", *Addiction*. doi: 10.1111/add.12590

[11] Ibid

risk of commercial failure due to rising costs and contracting credit availability. This is accentuated by the unequal trading environment within which our members operate.

As we have seen to such devastating impact since 2013, excise duty is both a blunt and ineffective tool to curb consumption. A rise in excise directly results in the loss of livelihood to the independent off-licence sector (who by the Department of Health's admission are not the concern), inadvertently boosting the market-share of irresponsible deep-discounters, while the prices themselves remain unchanged as supermarkets have been found to under-shift tax on alcohol to maintain their low prices.

Stemming from these excise increases, the rise of illicit and cross-border trade, a reduction in credit facilities, and the below cost selling of alcohol by large mixed retailers, has locked our sector out of the recovery, forcing our indigenous sector of specialists, who only sell alcohol, to the brink of commercial failure.

The independent off-licence sector is an integral pillar of the community. The closure of businesses in our sector has both social and economic consequences to their communities, whereby outlets tend to be locally operated SMEs, investing and employing locally and monitoring responsible drinking within their communities.

NOffLA is therefore calling on the Budgetary Oversight Committee to conduct a review of excise duties during its Budget 2020 sittings, and recommend a 15% reduction in the level of alcohol excise duty over a two-year period, as well as the restoration of parity on excise duties between wine and other alcoholic products.