



**NOffLA Presentation to the Oireachtas Committee on Business,
Enterprise and Innovation on the Cost of Doing Business in Ireland
28th November 2017 – 4pm**

Chair and members of the Committee, thank you for the invitation to appear before you today to outline how the economic recovery has failed to encompass the off-licence sector due to the **regressive levels of excise duty imposed on alcohol, the rise of illicit and black-market trading, and the unequal trading environment that specialist off-licences are now operating in**, which is further exacerbated by the market uncertainty created by Brexit.

The National Off-Licence Association is a representative body consisting of 315 independent specialist off-licence members across Ireland. Our sector supports almost 6,000 jobs across 26 counties, and works to promote the responsible sale, marketing and consumption of alcohol – sharing best practices with the entire trade. **Our members' outlets tend to be owner-operated and located in the heart of their communities.**

It is imperative that the Government intervenes to protect the remaining 5,900 jobs in our sector, 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 in the community, and thus maintain neighbourhood economies**, rather than the profits leaving the country through international organisations.

With regards the challenges our businesses face, the Reduction of Credit Facilities is one of the most significant - The level of excise duty charged in Ireland is directly correlated with cash flow, as it puts a strain on working capital. Funding goods under Ireland's excise regime, 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 has recently been highlighted through our annual Members' Survey, showing that **more than half of members (52%), are currently experiencing cash flow issues, with 39% having had their bank facility cut in the past year**, resulting in 52% of members struggling to finance day to day operations and pay creditors on time.

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.

The impact of these credit restrictions on all segments of our 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 not available, and so **letting staff go becomes the only financial option**.

I would also like to discuss the impacts of Ireland's high business costs have on Employment – As I have already outlined, excise duty 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 for the next two years¹. It's important to note that excise increases were initially introduced as emergency measures. The emergency is now over and so we would welcome a repeal of these emergency measures.

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**.

Since the onset of the recession and subsequent increases in excise, 935 independent off-licences have closed or lapsed and over 3,000 jobs have been lost.

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 **34% of participants responded that they would hire more employees were excise duties to be reduced, while a further 33% responded that they would increase existing staff's salaries**.

Illicit Trade is also having a significant impact on NOffLA businesses - This is now on the increase once again, as the devalued Sterling and asymmetrical excise regimes between

¹ Central Bank of Ireland, Quarterly Bulletin, July 2017

the North and South acts as a catalyst for increased activity. According to Grant Thornton, 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.²

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 Revenue, **the number of seizures of counterfeit alcohol in Ireland has increased from 282 in 2008, to 1,875 seizures in 2016, an increase of 550% in 8 years.**³

Similarly, Cross-Border Trade directly impacts the sales and revenues of NOffLA members - Brexit has presented a significant threat to many independent off-licences, particularly in border communities, who are suffering considerably due to the weakened Sterling and far higher levels of excise duty and VAT.

Considering the likely negative economic implications of Brexit, counterfeiting and cross-border trade is likely to increase in the coming months, placing further strain on our small businesses, impacting on jobs in our sector and exchequer returns.

Below Cost Selling is also a significant factor in the performance of NOffLA members, and facilitates the market domination of internationally financed mixed retailers - One of the main reasons our sector is struggling so much can be attributed to the **unequal trading environment** we find ourselves operating in. 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 to retain low alcohol prices as a loss leader to encourage the sale of dearer household necessities. NOffLA would welcome the reintroduction of a ban on below cost selling.**

To conclude, from a genuine independent retailer's perspective, the current excessive costs of doing business in Ireland, driven by high levels of excise, are stifling local enterprises across the country, preventing them from scaling up activities and increasing employment; increasing the incidence of illicit and cross-border trade; and in certain cases, is **putting NOffLA members at risk of commercial failure** due to rising costs and contracting credit availability.

² *Illicit Trade, 2015-2016: Implications for the Irish Economy*, (Grant Thornton, 2016)

³ Revenue Commissioners Annual Reports 2008-2016