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Sent: Tuesday 14 July 2020 08:51
To: Michael McNamara
Cc: Covid19
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Categories: Submissions

Dear Deputy McNamara, Pat,

Further to your Committee's request for same, please find attached a submission from Evelyn Jones of the National Off-Licence Association (NOffLA).

NOffLA is calling for a reduction in excise duties to support the wider drinks sector, which has been significantly impacted by the COVID-19 pandemic. This is aimed at supporting the impacted drinks sector business model and providing for the long-term security of local, independent off-licences. NOffLA likewise supports the immediate commencement of Minimum Unit Pricing as a means of ensuring the responsible retailing of alcohol.

Should the Committee have any further questions on our submission we would be happy to respond in a further written evidence.

Kind regards,
Eamonn

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National Off-Licence Association

NATIONAL OFFLICENCE ASSOCIATION

Submission to the Oireachtas Special Committee on Covid-19 Response

NOFFLA'S RECOMMENDATIONS:[1]

1. *REDUCE EXCISE DUTY ON ALCOHOL BY 15% IN BUDGET 2021 TO SAVE IRELAND'S DRINKS SECTOR*

- For the drinks sector, 2020 will be a year with no tourists; shuttered premises; social distancing requirements; mass unemployment; depressed demand; reduced production capacity; new supply chain logistics; PPE investments; and a potential cliff-edge Brexit.
- A 15% reduction would unwind the Budget 2013 austerity-related excise increase. Even with a 15% reduction, Ireland would still have the 3rd highest aggregate level of excise duty in Europe.
- Once businesses re-open, overheads will have increased significantly due to COVID-19 restrictions. Business' ability to turn a profit will also have reduced due to depressed demand and reduced operating capacities.
- The impact of COVID-19 is also yet to be felt. With drying-up Government subsidies, it is likely consumer demand will depress even further in H2 2020.
- NOffLA is therefore recommending that Government reduces alcohol excise duty by 15% in Budget 2021 to both stimulate consumer demand in H2 and to allow businesses to maximise profit for reinvesting in staff, protective equipment, new supply chain logistics and innovation.

2. *RESTORE PARITY TO WINE TAXATION IN RELATION TO DOMESTIC ALCOHOL*

- Wine excise on a 75cl bottle of wine is on average 30% (€0.87) **higher than the equivalent cider and beer excise on a** 75cl bottle.
- Retailers and suppliers have to raise and pay **an extra €17,958 per 1,000 cases of wine in excise and VAT** due to increases in Budget 2013 and 2014, now totaling €47,035, up 61%.
- Import excise is frequently payable at the point of entry or with 30 days' credit; a lack of available finance from banks – exacerbated by COVID-19 – puts severe pressure on working capital for wine importers and retailers alike. If the excise is not paid then there is no product to sell. This creates a credit crunch throughout the supply chain, ultimately costing jobs.
- 67.65% of NOffLA members have already had difficulty getting certain stock from suppliers and 23.53% anticipate that this will be an issue[2]. Wine importers and exporters are in need of support.
- Speaking with our colleagues in Europe, we understand the wine sector to be under significant pressure and Ireland's punitive excise regime compounds this.

1. REDUCE EXCISE DUTY ON ALCOHOL BY 15% IN BUDGET 2021 TO SAVE IRELAND'S DRINKS SECTOR

Excise is a disproportionately high tax that unfairly impacts the whole drinks sector

Ireland has the highest tax on wine in the EU, the second highest tax on beer and cider, and the third highest on spirits.[3] This means Irish producers, suppliers and retailers will suffer from a competitive disadvantage relative to their EU counterparts post COVID-19.

[1] NOffLA makes the following Budget 2021 recommendations, based on the scenario of an orderly Brexit outcome. In the event of a disorderly No Deal Brexit, the industry would require further support.
[2] *2020 NOfflA Members' Survey*

Even with a 15% reduction, Ireland would still have the 3rd highest aggregate level of excise duty in Europe. A 15% reduction would only undo the excise increases from Budget 2013 and so in the current context, this is a reasonable request to make for the wider drinks sector.

Despite widespread reporting on improved off-licence sales throughout the pandemic period, almost 25% of NOffLA members were forced to reduce staffing levels during this time. 44% of respondents stated they would struggle to remain open should excise duties be increased in Budget 2021, indicating the precarious situation our sector is currently in[4].

Independent off-licences have long been concerned about the long-term viability of our sector and with the impacts of the COVID-19 crisis yet to take hold on the real economy, the short-term future will also be difficult.[5] Off-licences are forced to burden an unusually high tax wedge by SME standards, given that alcohol (the only product which our members retail) is a high tax product.

For example, 65% of the retail price of an average bottle of whiskey goes to the government, **making Ireland one of the most expensive places in the world to buy Irish whiskey. On every €9 bottle of wine, €4.87 (54%) goes to the Exchequer**, compared to Spain, Italy or Germany, where there is no excise duty charged per bottle. **Furthermore, €16.40 of a 38% standard bottle of spirits (retailing at €24) is excise and VAT**. In fact, the €16.77 tax take on a bottle of Jameson in Ireland is about the same as the total price of that same bottle (about €17) in New York.

Excise is a regressive tax on consumers, whereby **over half of a Special Occasion spend is tax;** i.e. a gigantic 52% (€130) of a €250 spend is excise and VAT. It should also be noted that the €250 spend is generally a net amount earned after income tax deductions of PAYE, PRSI and USC.

52% (€130.35) of a Sample Spend (€250.65) is Excise + VAT						
Product Quantity	Duty	Price per unit	Customer Spend	Total Duty	Total VAT	TOTAL TAX
Red 6	€3.19	€10.99	€65.94	€19.14	€15.17	€34.31
White 6	€3.19	€10.99	€65.94	€19.14	€15.17	€34.31
Prosecco 1	€6.37	€17.99	€17.99	€6.37	€4.14	€10.51
Whiskey 1	€11.92	€29.99	€29.99	€11.92	€6.90	€18.82
Beer 24	€0.48	€1.95	€46.80	€11.52	€10.76	€22.28
Port 1	€4.62	€23.99	€23.99	€4.62	€5.52	€10.14
Total	**€29.77**		**€250.65**	**€72.71**	**€57.64**	**€130.37**

[3] *Ireland ranks second in EU 'Big 4' for highest alcohol excise tax , September 2018 - link*
[4] *2020 NOffIA Members' Survey*
[5] *Impact of COVID-19 pandemic on real economy has yet to fully materialise – Central Bank of Ireland - link*

Excise and the drinks sector

The wider drinks sector has also been disproportionately impacted by the COVID-19 business restrictions. This has resulted in shuttered businesses; production capacity reductions; increases in unemployment; and overall depressed demand. Feedback to our annual Members' Survey highlights that the increased off-licence sales occurred primarily in the supermarket setting, where consumers availed of discounted alcohol sold with food. This is a practice which is of concern for NOffLA and its members, who have long-called for the introduction of alcohol pricing controls, through the implementation of Minimum Unit Pricing as outlined in the Public Health (Alcohol) Act 2018.

The Government's, and this Committee's attention is now rightly focused on ways to reignite economic activity and ensure the survival of SMEs around the country in the aftermath of this public health emergency. We understand that a stimulus package is being prepared for the economy, and NOffLA firmly believes that a 15% reduction in excise duty should be a constituent part of this package.

A reduction in excise duties in Budget 2021 would be a lifeline for the wider drinks sector and would help secure the long-term future of independent off-licences. It would be a powerful message – to the thousands of alcohol sector businesses – that the Government was investing in their long-term future and that of their employees. Such a message would have a significant impact on the re-opening plans for many businesses who may otherwise remain shuttered.

One of the most evident impacts of the COVID-19 crisis is in the tourism industry, and the effects this will have on businesses in the hospitality sectors. With international visitor numbers to likely not return to pre-crisis levels for some time, these businesses will struggle to make up these lost revenues and remain profitable. Further, Britain's departure from the EU remains an underlying risk that will bring with it further disruption for these sectors.

In addition, businesses within the hospitality sectors must now adapt their businesses to adhere to new social distancing and public health requirements. How consumers react to this remains to be seen however, these measures are likely to impact the ability of businesses to generate revenue and maximise profits relative to their fixed costs (rent in particular). In addition to the effects of the crisis across the wider economy, with increased unemployment and reduced earnings, consumer demand can also be expected to decline and it can be assumed again that revenues will not recover to pre-crisis levels for some time.

Producers are now operating at much-reduced production levels and both importers and exporters are now facing additional delays and costs to their supply chains. These have knock-on effects for the wider-drinks sector as a whole. As such, a 15% reduction in excise duties would serve to support not just retailers but all stakeholders within the sector in helping protect their commercial viability safeguarding their businesses into the future.

Excise and Employment

Ireland's drinks sector, accounting for some 5% of total employment, is one of the largest employers in the country, most notably in the regions outside of Dublin. As we have seen with the recovery from the previous financial crisis, regional and rural areas are slower to experience any economic gains, with many businesses outside of urban centres not seeing any recovery at all.

The independent off-licence sector never got to fully enjoy the benefits of the economic recovery, largely due to the high rates of excise duty levelled on alcoholic goods. While our businesses have been lucky enough to continue operating, we now find ourselves in the same situation as most SMEs in the country with the economic outlook in the medium to long-term not looking promising.

The independent off-licence sector, when compared with the larger multiple chains, is an employment intensive business. Our members often pay well in excess of the minimum wage and as such, a flourishing independent off-licence sector will have a greater positive economic impact than that of a flourishing multiples sector.

While increases in excise duty levels are strongly correlated with rising unemployment, decreases in the levels of excise duty are positively correlated with increases in employment rates. **Unlike other taxes, its impact is immediate, requiring up front funding from midnight on Budget Day and the uncertainty surrounding its fluctuation from year to year prevents medium to long-term business planning in terms of job creation, expansion of product offering and the upgrading of equipment and premises.**

The impact of excise increases is immediate, requiring up-front funding from midnight on Budget day

Excise duties will serve to stifle any nascent recovery in the drinks sector, which currently consists of over 90,000 direct and indirect drinks-related jobs and over 250,000 direct and indirect jobs in the wider hospitality sector in the great majority of parishes throughout Ireland.[6] A reduction in excise duty, however, presents an opportunity for the Government to save local jobs and stimulate business investment. 37% of NOffLA members indicated that they would increase staff were excise reduced. Further, 44% of respondents to NOffLA's 2020 Members' Survey said they would increase staff salaries and 66% would invest in their business, should excise be reduced.[7] From the Members' Survey, it is clear that excise duty increases have a detrimental impact on employment and general working conditions within the independent off-licence sector.

This is because excise is directly correlated to cash flow and excise strains working capital. Funding an excise increase in the current economic climate is a constant struggle for importers and retailers

[6] *Hospitality sector related employment in Dáil constituencies 2015* - link
[7] *2020 NOffIA Members' Survey*

alike as credit is not available. **Ultimately, shedding jobs is the only way to release the required funds.**

Excise Duty & Consumption

Excise duty has too frequently been used and cited as a **tool for reducing alcohol consumption, with little consideration for impact on commercial viability of businesses**. Any limited successes through this approach, are substantially offset economically through job losses and subsequent social welfare costs. Given the Oireachtas has now legislated for the introduction of Minimum Unit Pricing, there is no further reasonable justification for such punitive excise rates.

While lower excise duties may allow retailers to pass some lower prices on to consumers on high-margin or expensive products, this is not the principle rational for an excise reduction in Budget 2021. Although we are concerned by a deterioration in consumer demand in the latter half of this year, COVID-19 and the health measures have undermined the alcohol sector business model.

Due to COVID-19, many off-licences allow only 1 or 2 cusomers in the premises at each time. Staff are also more difficult to attract and so can demand higher wages, while PPE must be bought for both customers and staff alike. Increased sanitation measures mean either increased staffing numbers or less productive staff and due to shortages in certain products, suppliers can demand higher prices.

In the on-licenced sector, the situation is yet more challenging, given social distancing restrictions will mean a maximum number of customers in a pub or restaurant at any one time. This reduced operating capacity will mean lower margins for an already low-margin sector.

Finally, from a production perspective, a lack of demand from the on-licenced sector means that there are less economies of scale to benefit from. Furthermore, manufacturing sites have been forced to implement new social distancing requirements, often meaning that production capacity is also reduced.

2. RESTORE PARITY TO WINE TAXATION IN RELATION TO DOMESTIC ALCOHOL

While our excise on alcohol in general is unacceptably high by European standards, wine in particular has been targeted by previous excise duty increases and we currently have the highest wine excise levels within the EU. This means that European suppliers and Irish importers suffer from comparative disadvantages relative to their counterparts in the beer, cider and spirits sectors. Ireland’s wine excise duties also stymie any possibility to develop the burgeoning wine production sector in Ireland, just as we have a renaissance in craft beer and spirits production. This needs to be urgently addressed to help both our domestic businesses and European suppliers.

Ireland’s rates of excise on wine, for example, are 5.7 times higher than the Belgian level, 2.7 times higher than the Danish level, and 1.55 times higher than the Swedish level. Like Ireland, these northern European countries are not wine producers, but instead focus on beer and spirits production. Unlike Ireland, however, these countries do not unfairly target imported products (wine) to the benefit of domestic producers (beer/spirits). The targeting of imported products to their detriment is in contravention of EU State Aid rules. In fact, 14 EU economies have no excise on wine at all[8]. When comparing the current excise on wine to the current excise on cider and beer, the excise on a bottle of wine is on average **35%, or €0.82 more than the equivalent excise on cider and beer.** This disparity reaches as high as 51%, or €1.08 more for wine on 12.5% ABV bottles.

Beer Vs. Wine Taxation per 75ml bottle/9lt case				
Alc. %	Beer& Cider Duty	Wine Duty	Over taxation (Per Bottle)	Over taxation (Per Case 12)
12.5%	€2.11	€3.19	€1.08	€12.86
13.0%	€2.20	€3.19	€0.99	€11.85
13.5%	€2.28	€3.19	€0.91	€10.83
14.0%	€2.37	€3.19	€0.82	€9.82
14.5%	€2.45	€3.19	€0.74	€8.80
15.0%	€2.54	€3.19	€0.65	€7.79
15.5%	€2.62	€3.19	€0.57	€6.77

Wine is not produced at scale in Ireland and as such is **largely a non-domestic product,** but it falls into the same fiscal customs and statistical classification as “similar” domestic products. Thus, its disproportionately high excise is arguably **distorting the single market**.

The impact of the sheer scale of excise increase on wine since Budget 2013 (62%) can best be illustrated by the excise cost of 1,000 cases of wine (12x75cl). Prior to Budget 2013, if 1,000 cases of wine (12x75cl) were imported/taken out of bond in a month, the excise duty would have been €23,640.

In Budget 2013, this figure rose to €33,360, with Budget 2014 increasing this cost to €38,240 - for the same volume. The total payment (including VAT) is now €47,035 - **an extra €17,958 per 1,000 cases** that has to be found per month.

Tax Burden on 1,000 Cases of Wine 2012-2019					
Year	% Increase	Duty per Case	Excise per 1000 Cases	Vat	Payable to Revenue
2012		€22.64	€23,640	€5,437	€29,077
2013	41%	€33.36	€33,360	€7,673	€41,033
2014	15%	€38.24	€38,240	€8,795	€47,035
Increase	**62%**	**€15.60**	**€14,600**	**€3,358**	**€17,958**

This impact 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, whereas stock turnover and supplier credit

[8] *Excise Duty Tables 2019* - link

terms are on average 60 days. Funding for this upfront cash requirement is simply not available so letting staff go becomes the only funding option.

According to the Treaty on the Functioning of the European Union: *No Member shall impose, directly or indirectly, on the products of other Member States any internal taxation of any kind in excess of that imposed directly or indirectly on similar domestic products. Furthermore, no Member State shall impose on the products of other Member States any internal taxation of such a nature to afford indirect protection to other products.*

Indeed, in April 2017, the European Commission has acknowledged this potential issue, when it launched a 'consultation on the structures of excise duties applied to alcohol and alcoholic beverages'[9] with a view to ensuring the proper functioning of the internal market, and to avoiding the distortion of competition.

Given the level of taxation levied on wine, it could be argued that the Government is **indirectly protecting** beer (mainly produced in Ireland) to the detriment of wine (imported from other Member States). The European Commission previously challenged Sweden's tax treatment of wine and beer because there was a 20% taxation differential between the products.[10] In a similar case, the ECJ found that the UK had indirectly protected domestic beer over wine when an excise tax was levied on certain wines that was roughly five times the tax levied on beer.[11]

In Budgets 2013 and 2014, wine taxation was increased by 62% compared to beer (+44%), cider (+43%), spirits (+37%). NOffLA members' European wine suppliers cannot understand how wine in Ireland was permitted to be so aggressively and disproportionately targeted by 40% more than beer and spirits without European intervention**. This begs the question, if it was permitted by the European Commission as an emergency measure, was it done so under the provision of being rolled back as our economy recovered?**

We thank you for taking the time to review this submission.

Evelyn Jones

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[9] European Commission, Public consultation on the structures of excise duties applied to alcohol and alcoholic beverages, 18.04.2016 - link
[10] Judgment of the Court of Justice in Case C-167/05 - link
[11] Judgement of the Court of Justice, Case 170/78 - link

ABOUT NOFFLA

NOffLA was established in 1991 and represents independent specialist off-licences across Ireland. The Association has 315 members, and the sector represents 5,900 jobs in 26 counties. NOffLA works to promote the responsible sale, marketing and consumption of alcohol and to share best practices with the entire trade. NOffLA acts on behalf of its members to advocate for policy actions, such as the introduction of Minimum Unit Pricing, that promote the responsible retailing of alcohol in the interests of public health. NOffLA's members' outlets are specialist or pure off-licences and tend to be owner-operated, located in the heart of their communities and employ expertise in responsibly retailing many unique products.

The Association requires as a condition of membership that members be fully trained and examined in the Responsible Retail of Alcohol. To ensure the highest standard of training is provided, NOffLA developed and implemented the Responsible Trading Certificate (RTC) which ensures that independent off-licence employees are highly trained in retailing alcohol responsibly. To date, NOffLA has trained 1,276 alcohol retailers, (with 869 employees availing of the innovative e-Learning platform for this programme) and accredited 1,020 by way of examination. Similar requirements are not in place in mixed trading outlets where in many cases little oversight is given to the sale of alcohol. For example, it is common practice in some outlets to permit the purchase of alcohol at self-service checkouts.

By contrast, alcohol is the sole product for NOffLA's members. Failure to adhere to licensing laws can lead to a licence being revoked, and also court proceedings being issued. This would mean the loss of livelihood and the loss of jobs and revenue to the local economy. It is therefore in our members' best interests to retail alcohol in the strictest, most transparent manner.

Despite some believing that the off-trade is one homogenous sector, which is benefiting from the significant shift to home consumption, the job losses and business closures witnessed in this sector in the last few years show that this is not a true reflection.