

FROM PARLIAMENT**12-05-09: House of Commons Finance Bill Debate****Rates of alcoholic liquor duty****Mr. Greg Hands (Tory Treasury Spokesman)**

One of the main reasons for my speaking tonight is that I am going to outline why we voted against this year's rises in alcohol duties. We see them as blanket rises that hit all consumers, without making any attempt to curb problem drinkers. There are also significant holes in other aspects of Government policy. For example, while Labour's alcohol duty escalator appears still to exist, it does not seem to apply when the retail prices index is negative. We were told that the escalator was there to provide stability, but that stability went within a few months with the new duty rises in the pre-Budget report, and stability and certainty have been eroded further in the Budget.

We must ask whether the RPI measure looks forward or backward. We must also ask what will happen to alcohol duty when VAT goes up next new year's eve as "Auld Lang Syne" rings out. Earlier, I think that we heard a concession from the Financial Secretary, who suggested that the change might be made in the early hours of new year's day rather than on new year's eve. A further question is whether the Government's huge duty rises are a result of health concerns or of a desperate effort to plug the gaping hole in the public finances, or perhaps a little bit of both. However, I thought that first we should conduct an examination of exactly what has happened over the last 14 months in relation to alcohol duties.

When the Government introduced their duty escalator at the last Budget, they raised duty by some 6 per cent. across the board. It rose again by 8 per cent. when VAT was reduced in the PBR, and we have a further increase of 2 per cent. across the board in this year's Budget. Over two Budgets and the intervening PBR, duty on a typical pint of beer has risen by 8p in a year. A bottle of wine now carries duty of £1.61, compared with £1.34 previously. That is an increase of 27p.

Spirits are up. A bottle of gin carries 82p more duty, and a bottle of whisky carries an additional 86p—although without the Government's embarrassing U-turn in the PBR, the amount would have been even greater. Cider and perry are also up, as is champagne—which does have some impact on the Treasury, judging by last year's photographs of large-volume deliveries to it and to other Government premises on and just off Whitehall.

First, let us take a look at the condition of Britain's fragile drinks sector.

Mr. Mark Todd

Does the hon. Gentleman agree that disorder is rather less likely to emanate from the supervised environment of a public house than from off-licence sales of alcohol, freely distributed to those who may drink it in the street, and distribute the packaging all over the road?

Mr. Hands

I thank the hon. Gentleman for that intervention. He makes the telling point that a well-supervised, well-staffed, professionally run licensed establishment will be able to look after such problems quite well. The real problems, of course, start to arise outside the establishment or later on, which is, again, something the industry has to consider.

Contrary to popular perception, alcohol consumption is falling, and actually peaked a few years ago. The total amount of alcohol sold in the UK fell by 6 per cent. between 2004 and 2008. Consumption per head of pure alcohol per annum is down from a peak of about 9.5

litres in 2004 to about 8.7 litres today, although that is still above the figure of 7.5 litres for 1993. This is not to deny that there are problems in the UK with alcohol consumption, but it goes to show that the sands are shifting. This is not the occasion to digress into a full debate on the healthiness or otherwise of alcohol consumption, as we are, after all, looking at the effect on licensed premises, but we need to strike a careful balance between the interests of the great majority who drink in sensible moderation as against addressing the people who abuse alcohol and are responsible for mayhem and disorder in our town centres, not to mention issues such as domestic violence and the expense caused, to low-income households in particular, by dependency and addiction.

Beer consumption peaked in 1979, and since I left university in 1989 beer consumption in pubs has halved. I am not for a moment suggesting a link between those two facts, but that does put into perspective how quickly this sector has changed. This is not a plea to reject the zeitgeist and return to a golden age of cricket and warm beer in our local pub, but we need to recognise that the competitive environment facing pubs is, in many places, difficult.

Beer duty was increased by a staggering 17.8 per cent. last year, with two big increases in the space of just nine months. UK pub beer volumes have fallen by 9.3 per cent. in the past 12 months. The proportion of beer sold through the off-trade has risen from about 10 per cent. in 1979 to just under 50 per cent. today, and the trend is accelerating. The rate of decline in beer consumption overall, across both on and off-trades, which is clear over 30 years, is accelerating. According to the British Beer and Pub Association, between March 2006 and March 2007, consumption fell by some 600,000 barrels, between 2007 and 2008 it fell by 1.1 million barrels—that is about twice the rate—and between 2008 and 2009 it fell by some 2.2 million barrels. It seems that almost every year the rate of the deceleration of beer consumption doubles. We are down to a level where just 28.6 million barrels are consumed, across both the on and off-trades and covering all types of beer.

I wish to discuss the number of pubs and bars in England and the commercial pressures that are being put on them, which have been mentioned by a couple of hon. Members. There are some 57,000 pubs and bars in England and Wales, which, according to the Association of Licensed Multiple Retailers, have a combined annual turnover of approximately £25 billion, which is equivalent to about 2 per cent. of our GDP. More than 500,000 people are directly employed in the industry—about a third as bar staff—which is more than are employed in construction, agriculture and mining put together. According to ALMR, a third of pub revenue goes to the Exchequer in alcohol and gaming duties. Additional revenues are generated through VAT, PAYE and other local and national taxes, so the typical pub contributes about £155,000 per annum to the Treasury.

However, the number of pubs is falling. More than 4,000 have closed since 2004, pre-dating the start of Labour's recession. The trend is now accelerating, with more than 3,000 of those closures taking place in the past two calendar years. What was a closure rate of five a week between 2004 and 2007 has become 40 a week in 2008. What was the weekly closure rate just a couple of years ago has become the daily closure rate.

It would be unfair to blame alcohol duties exclusively for that trend. Labour's Licensing Act 2003 must also bear part of the blame, as must the increased competition from supermarkets and the smoking ban.

The pub and bar trade is under pressure elsewhere too. A couple of weeks ago I was delighted to be hosted by my right hon. and learned Friend the Member for Devizes (Mr. Ancram) and my hon. Friend the Member for Westbury (Dr. Murrison) to see at first hand how town and village pubs were coping. I say that as someone who represents an inner-London constituency. Perhaps I should get out a little more. One of the most striking aspects was being shown the entirety of the documentation that a pub operator or landlord needs to complete when opening, and again each year, even before a single pint is sold. According to the industry, publicans spend an average of eight hours a week dealing with paperwork, and one in five gives red tape as a reason for becoming uncompetitive. According to ALMR, which represents large parts of the pub and bar industry, the average running costs of a pub are

some 51 per cent. of turnover, even before rent and the cost of sale are taken into account. Employment costs have increased—

According to the industry, publicans spend an average of eight hours a week dealing with paperwork. One in five blamed it for their becoming uncompetitive—it represents 51 per cent. of turnover. Employment costs have increased by almost 59 per cent. over the past decade and ALMR is calling for the 0.5 per cent. rise in national insurance contributions next year to be scrapped—

The drinks trade and pub businesses are vital employers. According to the Oxford Economics study, some 31,000 people are employed in the UK in drinks manufacture. I shall try to relate this point to duty. Just over half are employed in producing beer, some 35 per cent. in producing spirits, 6 per cent. in producing cider and wine and the 6 per cent. remainder in producing other drinks. Much of that employment is in rural communities, where other jobs on offer are limited. It helps to sustain them, as my hon. Friend the Member for Braintree (Mr. Newmark) and others have noted. People involved in beer production in England and Wales are 50 per cent. more likely to live in a rural community than the national average for those in employment overall.

The breweries are doing no better. I am in constant correspondence about duty levels with Fuller, Smith and Turner, which is located just outside my constituency and makes the excellent London Pride beer. I mentioned that I was in Wiltshire with some colleagues a few weeks ago, and we went to the Wadworth brewery in Devizes to see at first hand how one of Britain's medium-sized firms was faring under the big increases in duty. It is surviving, partly thanks to the quality of products such as 6X and some of the lighter brews.

Mr. Ellwood (Shadow Licensing Minister)

My hon. Friend is making a powerful argument about the level of duty. The duty hits the breweries, which were told that it would be only temporary and that it would act as an offset to the VAT cut—which was also supposed to be temporary. However, the Government have not said that because VAT is about to head back up, alcohol duty will head down again.

Mr. Hands

My hon. Friend makes a powerful point, which highlights how much duty has risen in the past 14 months and the appalling effect that that is having on our breweries and pubs across the country.

Since 1997, under Labour, the following big breweries have closed down part of their operations in certain towns—Brakspear, Ruddles, Morrells, Whitbread and Young's. Other names have disappeared entirely from the scene.

How will the industry survive the recession? I do not have statistics for previous recessions, but I recall reading or hearing that the pub trade suffered a great deal but was still more recession-proof than some sectors. That might well no longer be the case: an interesting survey by YouGov showed the entertainment that households expected to cut down on as the recession bit into their budgets. The least affected things were TV subscriptions, gym memberships and the hiring of DVDs, but two of the three biggest losers were going to pubs and eating out.

The Oxford Economics study published in December 2008 examined the direct impact of the Budget and pre-Budget report measures on the pub sector in 2008-09. It also estimated the measures' impact over the next five years, with the escalator in place. The study said that the cumulative loss thanks to the duty escalator in sales and economic activity would amount to 16.7 million barrels of beer, or 4.8 billion pints. It also said that more than 59,000 jobs would be lost in the beer supply chain, and that overall tax revenue, including duty, VAT and employment taxes, would fall by some £79 million.

Beer is part of Britain, and it is most popular among lower and middle income groups. Interestingly, people with manual or routine jobs drink less overall, but they drink 50 per cent. more beer than the managerial classes, and the figure is even higher for cider. The impact of the big duty rises has been felt in urban constituencies, but not as much as in the rural or suburban communities where pubs are more integral. That struck me most clearly a fortnight ago in the village of All Cannings outside Devizes. The King's Arms is the village's main amenity and it is in good health, but many other pubs are not. We need to be aware of that.

It is worth remembering that the VAT cut—the Government's much vaunted scheme to inject a bit of life into the economy—which was linked to the big rises in duty in the pre-Budget report, provided almost no benefit to pubs and breweries, because the VAT cut was netted against all the duty increases. It also caused big problems elsewhere, costing businesses a huge amount when making the necessary changes to prices. Industry sources estimate that the changes in autumn—both the VAT cut and the duty changes in the PBR—cost every pub or bar an average of £570, which does not take into account any management or staff time involved. The industry believes that the cost will be the same, or similar, when VAT goes back up again, but this time, it appears that it will not be offset by a reduction in beer, wine and spirits duties.

Now, of course, Ministers claim that the increases in duty were offset by the cut in VAT. The Government's claim overlooks a key distinction: producers pay duty, whereas the retailers pay VAT. I have met wine producers and importers who, safe—or so they thought—in the knowledge that the Government had introduced a duty escalator to enable long-term decision making, had entered into contracts to supply wine to supermarkets and others at a set price. Producers' and importers' margins are so tight that every bottle they produced after the PBR was produced at a loss until the contracts expired months later, as they had not factored in the additional rise in duty in the PBR. As they were the ones who paid duty, they suffered. Meanwhile, they watched the retailers whom they were supplying charge less VAT, but not always a lower price.

The Minister will understand that the claim that the duty increase for producers was offset is held in utter contempt in the industry. We have seen time and again that the Government's failure to consult, and their rush to implement duty changes, produced problems they did not foresee. To promise the industry a three-year horizon of stability, and then provide less than a week's notice of a major change only six months later, perhaps marks a new low in the Government's miserable record.

The VAT cut offset was hardly that, anyway. The PBR suggested that the changes would leave the total VAT and duty on products "broadly unchanged". I suppose that that depends on how broadly one defines the word "broadly", but the whisky increases proved too broad for even Labour's tradition of semantic hair-splitting to spin away. The proposed rise of 8 per cent. in duty on spirits in the PBR had to be cut to 4 per cent. when the Government were forced to admit that they had got their sums wrong. The Scotch Whisky Association, in particular, showed that the rise would have added 47p to a £20 bottle of whisky. The muddle on wine duties that occurred at the same time was never resolved. The increase in duty was supposed to offset the decline in VAT. For wine, that was true only of bottles priced at £6.07 or more, and 92 per cent. of bottles sold in the retail trade are priced at less than £6. That meant that under the PBR, four out of five shoppers ended up paying more for their wine as a result of the duty changes and VAT changes combined. The position was not at all neutral for wine buyers.

The Government claimed that when they introduced the alcohol duty escalator, it would bring certainty about future duty rises. After the PBR blunder, this year's Budget has actually added to that uncertainty. Traditionally, the indexation element of any duty rise was linked to the retail prices index that prevailed in the September before the Budget. This year's increase applies the RPI forecast for the September following the Budget. Clearly, that dampens the rise in duty in this instance, but it would be helpful to know whether the Government see that as a permanent change in their methodology; if it is not, the promised certainty on those duties has been eroded yet further.

The uncertainty reached in the industry in the past year beggars belief; there have been hefty duty increases in two Budgets and in the intervening PBR, as well as the introduction of an escalator and a change in the RPI date used for its calculation. That totally throws out the whole certainty argument, which was introduced a year ago along with the escalator. The uncertainty wreaks havoc with pricing, contracts and overhead costs, not to mention the administrative costs of implementing the price changes such as those due on new year's eve. If duty is not put back down when VAT returns to 17.5 per cent., the industry will take another hit. If the escalator is 2 per cent. per annum, why is the industry in practice facing a total rise of 4.5 per cent. in this financial year? That is a critical question that Ministers must answer tonight. At the moment, Labour's escalator appears to contain no certainty whatsoever.

My hon. Friend the Member for Henley (John Howell) wanted to know if there were any Government studies. There was a recent study—the community pub inquiry, by the all-party parliamentary beer group—and the Government's response to it was quite fascinating:

"It is important that any Government interventions reduce harm without impacting unduly on the majority of responsible drinkers".

However, that is exactly what they have done. Their duty rises have clobbered the majority of responsible drinkers. Across-the-board rises hit responsible drinkers, but fail specifically to target problem drinkers or drinking with antisocial consequences.

What other solutions have been proposed? A major controversy is the ability of the supermarkets and the off-trade more generally to absorb the rises in duty compared with the on-trade. France has looked at a scheme to reduce VAT on served food, versus that paid in supermarkets, and has suggested doing the same for the duty paid on served drinks. I would be grateful for a word from the Exchequer Secretary as to whether the UK has been looking at such schemes.

We want the Government to consider and evaluate a smart alcohol taxation regime, focusing on the drinks most closely linked to problem drinking, such as alcopops and high-strength beers and ciders, and using the proceeds to reduce duties on lower-strength alternatives elsewhere. We should look at what has happened in Australia and Germany, where such approaches have been used to good effect. The Government should seriously consider introducing such reforms here, instead of using health concerns as a cover for a blanket tax rise for responsible drinkers.