

PO-CH/NL/0822

PART A

START: 21-12-83

7-2-84



PO -CH /NL/0024



0822

PART A

1984 BUDGET
REPRESENTATIONS SCOTCH
WHISKY ASSOCIATION AND
BREWERS SOCIETY

DD'S 25 years N-AZIS 25/08/94.

PO -CH /NL/0024
0822
PART A

MS 21 DEC 1983 -27

The Brewers' Society

42 PORTMAN SQUARE · LONDON W1H 0BB

TELEGRAMS · BREWSOCIETY · LONDON W.1
TELEPHONE · 01-486 4831 (16 LINES)

Barney Hayhoe, Esq., MP
Minister of State,
H.M. Treasury,
Parliament Street,
London SW1P 3AG.

21st December, 1983

(Handwritten initials)

Dear Minister,

Joint Submission on European
Court Judgment on Beer/Wine
Taxation

I enclose a copy of the joint submission from the Cider Makers, Wine and Spirit Association and the Brewers' Society resulting from the European Court Judgment on the beer/wine ratio.

Unfortunately, in the time available, we were unable to obtain the full agreement of the Scotch Whisky Association, although there are many areas of mutual agreement. However, in the circumstances I felt it was better to let you have our submission now and it corresponds in all respects with our earlier draft.

I am also sending a copy of this to Charles Freedman at Customs and Excise.

Barney Hayhoe
Barney Hayhoe

MINISTER OF STATE	
REC.	21 DEC 1983
ACTION	MR FREEDMAN C+E
	PS/Chancellor PS/CST
	PS/EST PS/EST
	Mr Middleton Mr Cassell
	Mr Manger Mr Lord

Mr Arkhills
PS/C+E
MST

Brewers' Society
21.12

Joint submission on European Court Judgment
on Beer/Wine Taxation

1. The submission is put forward jointly by the Wine and Spirit Association, the National Association of Cider Makers and the Brewers' Society.
2. The Court's Judgment implies that significant changes will have to be made in the way in which the tax burden on alcoholic drink is divided among different kinds of alcoholic drink. It creates a totally new situation which will have major commercial repercussions for all sections of the drinks industry.
3. In particular, the Judgment requires a tax advantage to be given to one of the fastest growing sectors in the drinks market. Much of the resulting burden will inevitably fall on beer and spirits, which are depressed sectors of this market.
4. The Government's first objective must be to carry out a damage limitation exercise for beer and other non-wine drinks, while at the same time maintaining the stability of the wine market. It is recognised that the Chancellor will also wish to maintain or increase his excise duty yield from alcoholic drinks.
5. The Wine and Spirit Association, the National Association of Cider Makers and the Brewers' Society consider that the best way to meet these requirements is to maintain the present flat rate system of excise duty on NE 15% wine and to reduce its level to three times the duty on average beer; that this should be done over two fiscal years; and that the fiscal burden of off-setting the loss to the Chancellor should be spread over all drinks from cider to spirits.
6. The rates of duties on beer, fortified wine and spirits should be increased in the same proportion over this period, and by no more than is necessary to revalorise them. In this connection, the Brewers' Society withdraws its standing request that duty increases should be confined to such amounts as will lead the VAT inclusive retail price on average strength beer to move by whole pence per pint. Cider should be increased by at least the same amount per pint as beer of the same strength as average cider (i.e. 1042 OG).

7. The effect of these proposals is shown in Annex 1. It covers two different cases - first, where the rates of duty on beer, spirits and fortified wines are revalorised; and, second, where the total tax yield on all alcoholic drinks is revalorised. It examines these cases under two time scales, first where the 3 : 1 ratio for wine/beer is achieved in one budget and, second, where it is achieved in two.

8. The Wine and Spirit Association, the National Association of Cider Makers and the Brewers' Society urge that the solution shown in Section B of the Annex (valorisation of principal excise duty rates: 3 : 1 ratio achieved in two budgets) should be adopted. Our figures show that, spread over two years, the cost of complying with the Judgment could be contained within the principles suggested in paragraphs 5 and 6 yet involve the Chancellor giving up only a very small part of what he would have obtained on the revalorisation of his total yield on excisable drinks. Our volume assumptions are conservative and, if some drinks do better than is assumed, this small difference could well disappear.

9. We urge the Chancellor to accept this solution, in the long term interests of home-produced drink industries and in recognition of the fact that we are at a watershed in regard to the relative duties on wine and other drinks.

20th December, 1983.

	Change in excise duty rate on all drinks bar cider and wine NE15%	Beer	Wine NE 15%	Wine 15-NE18	Wine 18-NE22	Spirits	Cider	Total Yield	
								£M	Change on previous year
Valorisation of excise duty yield and no harmonisation - FY 84/85 - price - yield £M	+ 4% -	+0.69 1,722	+ 3.9 538	+ 5.0 151	+ 5.9 14	+21.0 1,377	+0.76 46	- 3,848	- +5.0%
Valorisation of principal excise duty rates: Wine-beer at 3:1 - in one budget - FY 84/85 A { - price - yield £M	+ 5% -	+0.87 1,713	-23.1 432	+ 6.3 153	+ 7.4 15	+26.2 1,380	+0.99 49	- 3,742	- +2.1%
- in two budgets - FY 84/85 B { + price - yield £M	+ 5% -	+0.87 1,727	- 9.7 489	+ 6.3 153	+ 7.4 15	+26.2 1,386	+0.99 49	- 3,819	- +4.2%
- FY 85/86 - price - yield £M	+ 5% -	+0.91 1,782	- 9.7 498	+ 6.6 160	+ 7.8 15	+27.5 1,450	+1.04 66	- 3,971	- +4.0%
Valorisation of total excise duty yield: wine-beer ratio at 3:1 - in one budget - FY 84/85 C { - price - yield £M	+10% -	+1.7 1,773	-19.6 449	+12.6 157	+14.8 15	+52.4 1,400	+2.0 54	- 3,848	- +5.0%
- in two budgets - FY 84/85 D { - price - yield £M	+ 6.5% -	+1.1 1,743	- 8.6 494	+ 8.2 154	+ 9.6 15	+34.1 1,392	+1.3 50	- 3,848	- +5.0%
- FY 85/86 - price - yield £M	+ 6.5% -	+1.2 1,815	- 8.6 511	+ 8.7 164	+10.2 15	+36.2 1,464	+1.4 71	- 4,040	- +5.0%

NOTES

1. Definition of Price

The figures in the table show the changes in price following a change in excise duty rates. The figures include both excise duty and the consequential VAT effect.

The units used are:-

Beer - pint of beer at 1038^o OG

Wine - 75 cl bottle

Spirits - 75 cl bottle at 40% alcohol

Cider - pint of cider. The duty change is equivalent to a beer of 1042^o OG.

2. Definition of Yield

The figures in the table refer to excise duties alone, which is in accordance with the Government presentation of fiscal data. This means that the VAT element has been excluded; eg., an increase of £100 M in excise duty yield means an increase of £115 M in total receipts by the Exchequer.

3. Calculation of Yield

The yields have been calculated using a dynamic model, and a full list of assumptions and elasticities is given in notes 5 to 7 below.

4. "Sensitivity" of Yield

The total yield figures are very sensitive to changes in either beer or spirits volume. A 1% increase in beer volume increases total yield by 0.5%. A 1% increase in spirits volume increases total yield by 0.4%. Thus if the volume trends in note 5 are thought to be pessimistic, then it is fair to anticipate a higher yield.

5. Volume Assumption

The underlying trends are applied to FY 1983/84, FY 1984/85 and FY 1985/86. They are:-

Beer: -1%. In FY '84 it is assumed that there will be no decline as the summer has offset the underlying decline. Thereafter there are no positive influences on the beer market.

Wine NE 15: +10% each year.

Wine 15 to NE18, and, 18 - NE22: No change.

Spirits - no change. However, in the first five months of FY 83/84 there is an increase of 11½%.

Cider: +20% per annum.

6. General Assumptions

- (a) Made-wine has been included with the volumes of wine of fresh grape. The category of made-wine below 10% has been incorporated into Wine NE15%.
- (b) Sparkling wine has been included in the category Wine NE15%.
- (c) No allowance has been made in the calculations for the special surcharge on sparkling wine or any other special tax provisions regarding wines and spirits.
- (d) Average prices have been calculated with reference to consumers' expenditure on each drink and the volumes duty paid, or withdrawn from bond.
- (e) Inflation has been assumed to be 5% per annum.
- (f) No allowance has been made for income elasticities, nor for changes in the overall economic situation, such as a reduction in the level of unemployment.

7. Elasticities and Cross-elasticities

BEER

- a. A 1% increase in the price of BEER reduces volume by 1%. (EIU survey)
- b. A 1% increase in the price of beer relative to WINE reduces volume by 0.2%. (EIU)
- c. A 1% increase in the price of beer relative to SPIRITS reduces volume by 0.1%. (*)

WINE

- d. A 1% increase in the price of WINE reduces volume by 1.1%. (WSA)
- e. A 1% increase in the price of wine relative to BEER reduces volume by 0.1%. (*)
- f. A 1% increase in the price of wine relative to SPIRITS reduces volume by 0.1%. (*)

SPIRITS

- g. A 1% increase in the price of SPIRITS reduces volume by 1.1%. (EIU)
- h. A 1% increase in the price of spirits relative to WINE reduces volume by 0.1%. (*)
- i. A 1% increase in the prices of spirits relative to BEER reduces volume by 0.1% (*)

CIDER

- j. Cider is assumed to price inelastic, and no cross-elasticities have been used.

(*) No econometric surveys give a figure for these relationships. It is believed that the reason for this is probably due to the quality of the price data used, rather than whether such relationships exist. The Society has assumed a relationship, but has made it less than the cross-elasticity actually established between wine and beer volume (7b above).

8. Yield in 1983/84

For ease of reference the Society's estimate for the yield 1983/84 is given below. It is based on all the above assumptions:

	£M
Beer	1,675
Wine NE15	470
Wine 15-18%	145
Wine 18-22%	14
Spirits	1,325
Cider	35
	<hr/>
Total	3,664

D. Kerr

(PWS)

The Scotch Whisky Association

Limited Liability

Registered in Scotland No. 35148

TEL: 031-229 4383

TELEX: 727626

20 ATHOLL CRESCENT · EDINBURGH EH3 8HF
REGISTERED OFFICE

HFOB/RES/SD

21st December 1983

J O Kerr Esq
Principal Private Secretary to
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

CH/EXCHEQUER	
REC.	23 DEC 1983 <i>23/12</i>
ACTION	Mr FREEDMAN. (CEE).
COPIES TO	PS/MST. Mr MORGAN Mr GRIFFITHS PS/CEE.

Dear Mr Kerr

As I think you may know, the Association has for a considerable number of years sought, and usually been granted, a meeting with the Chancellor of the Exchequer prior to the presentation of his Spring Budget. We would accordingly very much hope that the Chancellor will again agree to see a small delegation from our Council early in the New Year. The numbers likely to be involved would be no more than three or four and would comprise the Chairman of the Association, Mr J A R Macphail OBE, the Vice Chairman, Mr D C Kerr, and myself. It is possible that the Chairman of our Information Committee, Mr Donald Mackinlay, may also be included.

You will doubtless already have heard that I spoke recently to the Chancellor's Diary Secretary, Miss Donna Young, and I understand that, assuming that the Chancellor would be willing to see us, it may be possible for him to do so on Wednesday 18th or Thursday 19th January in the afternoon. Either of these dates would be suitable from our point of view, although we would have a strong preference for the afternoon of Thursday 19th January. In the event that neither of them should any longer be suitable for the Chancellor, we should of course be entirely happy to fit in with whatever date would be most convenient to him.

As on previous occasions, we would of course let the Chancellor have a paper beforehand outlining the particular issues we would wish to discuss with him.

It would be most helpful if you could please let me know fairly soon if the Chancellor would agree to see a delegation from our Council early next year. It occurs to me that you may find it most convenient to do this by telephone.

With kind regards

Yours sincerely

H F O Bewsher
Director General



H.M. CUSTOMS AND EXCISE
 KING'S BEAM HOUSE, MARK LANE
 LONDON EC3R 7HE
 01-626 1515

(Handwritten initials)

Handwritten notes:
 - 900...
 - 12/18/19...
 C.

*Are you content?
 It will prob. be 18/19 Jan.*

FROM: W D WHITMORE
 30 December 1983

cc PS/Minister of State
 Mr Monger
 Mr Griffiths

Handwritten initials in red ink

PS/Chancellor of the Exchequer

BUDGET REPRESENTATIONS : SCOTCH WHISKY ASSOCIATION

1. Colonel Bewsher wrote to you on 21 December requesting a pre-Budget meeting with the Chancellor. This note confirms the telephone conversation earlier today.
2. The SWA have traditionally met the Chancellor and we recommend that the Chancellor sees them this time. As representatives of a major revenue and exporting industry they would undoubtedly react adversely if such a meeting were refused.
3. We will, of course, provide briefing and official support at the meeting as required.

Handwritten signature of W D Whitmore

W D WHITMORE

Internal circulation: CPS
 Mr Knox
 Mr Freedman
 Mr Wilmott

1. Down
2. JuttE

The Scotch Whisky Association

Limited Liability

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(pwp)

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REGISTERED OFFICE

HFOB/RES/SD

6th January 1984

J O Kerr Esq
Principal Private Secretary to
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

CH/EXCHEQUER	
REC.	- 9 JAN 1984
INFO	Mr Freedman (Ct)
COPIES TO	PS/MUT
	Mr Monger
	Mr Griffiths
	PJ/Ct.

Dear Mr Kerr

I refer to my letter of 21st December 1983 and understand from Miss Donna Young, to whom I spoke this afternoon, that the Chancellor would be prepared to see a small delegation from my Council at 3.00pm on Thursday 19th January 1984. We are most grateful to the Chancellor for agreeing to do this, and look forward to meeting him, I understand, at ~~11 Downing Street~~ HMT on the date in question.

I shall hope to be able to send you at the end of next week the paper which we would wish to discuss with the Chancellor, at which time I shall also confirm the names of the members of our delegation.

In the meantime, I hope you will not hesitate to contact me if you should have any queries.

With kind regards meantime

Yours sincerely

H F O Bewsher
Director General



DEPARTMENT OF HEALTH & SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY
 Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 Treasury Chambers
 Great George Street
 LONDON SW1

Dear Mr Lawson,

I hope that in considering duties on tobacco you will take fully into account the implications for health of smoking. I was pleased to note the reference in Geoffrey Howe's Budget statements in 1982 and 1983 to the "sensible presumption" that Excise duties should be adjusted in line with the movement in prices from one year to the next.

Cigarette consumption continues to fall and I am sure that you recognise the importance of price as a factor in ensuring that decline continues. I hope that, in the case of cigarettes and hand-rolling tobacco, you will feel able to increase the duty to the extent necessary to ensure that their price at least keeps pace with the movement of prices generally since the 1981 Budget.

That would, in my view, be only a minimum response to the increasingly powerful public health case. If you could possibly go further, so that there was actually an advance of 2 or 3 percentage points beyond the R.P.I. movement you are anticipating, I believe that would be most helpful. Last autumn the Royal College of Physicians published a Fourth Report in their enormously influential series on the adverse effects of smoking on health. We have not made yet an adequate response. About 60,000 premature deaths occur each year from lung cancer and heart and other smoking-related diseases. But the tide seems to be turning. The prevalence of

CH/EXCHEQUER	
REC.	- 6 JAN 1984
Action	PS/CxE
TO	OCST, FST, MST, EST
	Sir P. Middleton
	Mr Battiswell
	Mr Canell

Mr Manger, Mr W
 Mr R.I.G. Allen
 Mr Griffiths
 Mr F. Martin, Mr Lord
 Mr Partello, Mr Ridley
 PS/IR.

DMSS
 to
 CX/EX

cigarette smoking is falling:-

%	Men	Women
1972	52	42
1982	38	33

Sales reached a peak of 137,000 million in 1973/4. In 1982 sales were 102,000 million.

Despite substantial increases in duty in 1981-82, cigarettes still cost less in real terms than they did when the dangers of smoking were first fully appreciated.

Cigars and pipe tobacco are just as dangerous as cigarettes if the smoke from them is inhaled, as is often the case when cigarette smokers switch to these products. I would hope, therefore, that you would not make any change to the relative levels of duty such as to encourage more cigarette smokers to switch to them.

I should be grateful if you would consider these points on tobacco very carefully indeed in your Budget strategy.

Turning briefly to alcohol, we welcomed the invitation from Customs and Excise to provide a DHSS representative on the Working Party on the European Court's Judgment and my officials contributed assessments of the health and social implications of the possible options for its report. While you are considering these options and determining your long-term taxation strategy we shall be continuing our efforts to improve the efficiency and effectiveness of the NHS and, in that context, seeking the co-operation of the health authorities and professions, among others, in preventing alcohol misuse by education and early intervention. A significant real increase in the duties on alcohol would help us to secure those objectives and I would press this. If the complexity of the issues facing you rules that out I hope that you will feel able at least to base your strategy on the "sensible presumption" as established in recent Budgets that duties should be adjusted in line with the

E. R.

movement in prices from one year to the next. I hope too that in considering your response to the European Court's Judgment you will take into account that we would be seriously embarrassed by any option that seemed likely to lead to an increase in the total consumption of alcohol.

Yours sincerely,

Ellen Roberts
(signed on behalf of)

NORMAN FOWLER

†
3812725DCLLON G
24787 LWKBRU B

RE : UK TAXATION OF WINE AND BEER

IN ITS JUDGMENT OF 12 JULY 1983, THE COURT CONSIDERED THREE POSSIBLE BASES FOR COMPARING WINE AND BEER : VOLUME, ALCOHOLIC STRENGTH AND PRICE. IT CONCLUDED THAT SINCE THE UK IMPOSED A DISCRIMINATORY TAX BURDEN ON WINE AS OPPOSED TO BEER, WHETHER BASED ON VOLUME, ON ALCOHOLIC STRENGTH OR ON PRICE, IT INFRINGED ARTICLE 95.

IN MY VIEWN , THE "VOLUME" CRITERION DOES NOT ALLOW AN APPROPRIATE COMPARISON. THIS WAS IMPLICITLY RECOGNIZED BY THE COMMISSION AND BY ITALY, WHO BOTH INSISTED ON THE NEED TO CONSIDER BOTH VOLUME AND ALCOHOLIC DEGREE : ALTHOUGH THE COMMISSION SAID THAT THE RATIO OF THE DIFFERENTIAL PER VOLUME MUST NOT TO EXCEED 1:2.8, THE REASON WAS THAT THIS CORRESPONDS TO A RATIO OF 1:1 BASED ON ALCOHOLIC STRENGTH (PARA. 13 OF THE JUDGMENT)., AS TO THE ITALIAN GOVERNMENT, ALTHOUGH IT SAID THAT "IN PRINCIPLE" THE RATE OF TAXATION BASED ON VOLUME MUST BE EQUAL, IT WENT ON TO SAY THAT A HEAVIER TAXATION OF WINE ON THE BASIS OF ALCOHOLIC STRENGTH WOULD BE A SURE INDICATION OF THE EXISTENCE OF A DISCRIMINATION (PARA. 17). THUS, EVEN THE ITALIAN GOVERNMENT DID NOT CONSIDER THAT ANY INEQUALITY IN THE TAX BASED ON VOLUME CONSTITUTED A PROHIBITED DISCRIMINATION.

THE "PRICE" CRITERION APPEARS TO BE ACCEPTED BY THE COURT IN ITS JUDGMENT OF 12 JULY 1983. HOWEVER IT WAS REJECTED IN THE JUDGMENT OF 27 FEBRUARY 1980 IN CASE 171/78 (COMMISSION V. DENMARK) ON THE RATHER FORMALISTIC GROUND THAT THE DANISH TAX WAS NOT, ON ITS FACE, AN "AD VALOREM" TAX (PARA. 30). SINCE THE CHANGES BEING CONSIDERED IN THE UK WOULD NOT INSTITUTE AN "AD VALOREM" TAX, THERE IS AT LEAST A RISK THAT THE COURT WOULD REVERT TO ITS REASONING IN THE COMMISSION V. DENMARK CASE

I THEREFORE BELIEVE YOU ARE RIGHT WHEN YOU STRESS THE IMPORTANCE OF THE ALCOHOLIC STRENGTH CRITERION. THE COURT REFERS TO IT AS CONSTITUTING "A RELATIVELY RELIABLE CRITERION FOR COMPARISON" (PARA. 20). IT ADDED THAT THE RELEVANCE OF THE ALCOHOLIC STRENGTH CRITERION WAS RECOGNIZED IN THE HARMONIZATION DISCUSSIONS WITHIN THE COUNCIL (PARA. 20 OF JUDGMENT OF 12 JULY 1983). IN ITS JUDGMENT OF 27 FEBRUARY 1980 IN THE COMMISSION V. UK CASE, THE COURT HAD ACTUALLY SAID THAT THIS WAS THE ONLY CRITERION PERMITTING AN OBJECTIVE COMPARISON (PARA. 19 OF THE JUDGMENT OF 27 FEBRUARY 1980).

I THEREFORE CONSIDER THAT THE ADOPTION BY THE UK OF A TAX ON BEER AND WINE PROPORTIONAL TO THE ALCOHOLIC STRENGTH OF THE BEVERAGES WOULD COMPLY WITH COMMUNITY LAW. IT IS POSSIBLE, ALTHOUGH NOT CERTAIN, THAT THE IMPOSITION OF A HEAVIER TAX (BASED ON ALCOHOLIC STRENGTH) ON WINE THAN ON BEER COULD BE JUSTIFIED IF THE RATE OF THE TAX (BASED ON PRICE) ON BOTH PRODUCTS IS EQUAL.

COULD THE UK PROVIDE FOR A DOUBLE RATE OF TAXATION UNDER WHICH A LOWER RATE WOULD BE APPLIED UP TO A GIVEN THRESHOLD AND A HIGHER RATE ABOVE THAT THRESHOLD? I BELIEVE SUCH A SYSTEM WOULD BE LAWFUL IF THE BORDER LINE DOES NOT CREATE A TOO GREAT DIFFERENCE BETWEEN THE TAX BURDEN IMPOSED ON DOMESTIC PRODUCTS AND THE BURDEN IMPOSED ON COMPETITIVE IMPORTED PRODUCTS. IN THIS REGARD, I SHOULD STRESS THAT THE COURT DID NOT LIMIT ITSELF TO REQUIRING PARITY BETWEEN BEER AND WINE AT 9 PERCENT VOLUME. IT MADE THE MUCH BROADER STATEMENT THAT (OWN TRANSLATION) "THE WINES WHICH ARE REALLY IN A COMPETITIVE RELATIONSHIP VIS-A-VIS BEER ARE THE LIGHTER WINES, OF AN ALCOHOLIC STRENGTH OF APPROXIMATELY 9 DEGREES, I.E. THE MOST CURRENT AND THE LEAST EXPENSIVE WINES". THE COURT THEREFORE DID NOT EXCLUDE THAT THERE COULD BE A CERTAIN COMPETITION, AT LEAST "POTENTIAL AND INDIRECT", BETWEEN BEER AND WINES HAVING A GREATER ALCOHOLIC STRENGTH. THE HOLDING OF THE JUDGMENT REFERS IN GENERAL TERMS TO "LEVYING EXCISE DUTY ON STILL LIGHT WINES ... AT A HIGHER RATE, IN RELATIVE TERMS, THAN ON BEER". IF I AM NOT MISTAKEN, "STILL LIGHT WINES" IS THE UK DESIGNATION FOR WINES UP TO 15 DEGREES. THUS THE HOLDING IS NOT LIMITED TO WINES AT 9 DEGREES.

IN MY OPINION, THE FIXING OF A 15 DEGREE THRESHOLD WOULD AVOID THE POSSIBILITY OF ANY ACCUSATION OF INDIRECT PROTECTIONISM. FIRSTLY, THIS THRESHOLD IS ALREADY USED BY UK LAW, ACCORDING TO POINT L OF YOUR LETTER. MOREOVER, FROM THE LITTLE I KNOW ABOUT ALCOHOLIC BEVERAGES, I BELIEVE THAT HISTORICALLY THERE IS A PRETTY CLEAR DEMARCATION BETWEEN WINES, MOST OF WHICH DO NOT EXCEED 14 OR 14.5 DEGREES AND APERITIFS WHICH START, IF I AM NOT MISTAKEN, AT ABOUT 18 DEGREES. THUS, THE 15 DEGREE LIMIT CANNOT BE SUSPECTED OF BEING ARBITRARY.

-
-
A 10 DEGREE LIMIT WOULD NOT NECESSARILY BE UNOBJECTIONABLE, ESPECIALLY IF THE DIFFERENCE BETWEEN THE TWO RATES IS SUBSTANTIAL. FIRSTLY, A 10 DEGREE DIVIDING LINE WOULD INVOLVE A PRETTY RADICAL BREAK WITH THE PRESENT POSITION WHERE ALL WINES UP TO 15 DEGREES ARE TAXED ON THE SAME BASIS. SECONDLY, EVEN THOUGH ON ITS FACE THE SYSTEM WOULD MAKE NO DISTINCTION BETWEEN BEER AND WINE, IT WOULD NEVERTHELESS IN PRACTICE HAVE THE RESULT OF DISCRIMINATING AGAINST WINES HAVING AN ALCOHOL CONTENT OF MORE THAN 10 PERCENT, AS TO WHICH THE COURT DID NOT COMPLETELY EXCLUDE THE EXISTENCE OF AN INDIRECT AND POTENTIAL COMPETITIVE RELATION TO BEER.

IT SHOULD ALSO BE CHECKED WHETHER ENGLISH WINES AND S' 'BRITISH WINERS' ' WOULD

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IT SHOULD ALSO BE CHECKED WHETHER ENGLISH WINES AND S' 'BRITISH WINES' ' WOULD BE PROTECTED BY A ' 'HIGHER' ' RATE STARTING AT 10 DEGREES. THIS WOULD BE THE CASE IF, AS IS POSSIBLE, ENGLISH WINES AND S' 'BRITISH WINES' ' ARE GENERALLY ON THE LOW SIDE AS REGARDS ALCOHOLIC STRENGTH, I.E. AT OR BELOW 10 DEGREES. IF, HOWEVER, ENGLISH WINES AND S' 'BRITISH WINES' ' ARE GENERALLY ABOVE 10 DEGREES, THE CHOICE OF A 10 DEGREE DIVIDING LINE MIGHT NEGATE ANY INTERFERENCE THAT THE TAX IS PROTECTIONISTIC IN CHARACTER.

E S

ONE SHOULD PERHAPS NOT ALTOGETHER DISREGARD THE PRICE FACTOR. ALTHOUGH AS INDICATED ABOVE THE COURT SEEMED TO REJECT THIS FACTOR IN THE COMMISSION V. DENMARK JUDGMENT, IT EXAMINED IT IN CONSIDERABLE DETAIL IN ITS JUDGMENT OF 12 JULY LAST. THIS MAY PERHAPS BE INTERPRETED AS A CHANGE OF ATTITUDE. IF THIS IS SO, AND IF IT CAN BE SHOWN THAT THE PRICE

--

OF WINE IS GENERALLY PROPORTIONAL TO ALCOHOLIC STRENGTH (WHICH SEEMS AT FIRST SIGHT TO BE A REASONABLE ASSUMPTION), IT COULD BE ARGUED THAT APPLICATION OF THE HIGHER RATE STARTING AT 10 DEGREE IS NOT DISCRIMINATORY. IF THE COURT CONDEMNED THE UK SYSTEM IN ITS JUDGMENT OF 12 JULY, THIS IS BECAUSE THAT SYSTEM LED TO DISCRIMINATORY CONSEQUENCES, WHETHER ONE BASES ONESELF ON VOLUME, ON ALCOHOLIC STRENGTH OR ON PRICE. IT SEEMS AT LEAST POSSIBLE THAT IF THE UK HAD BEEN ABLE TO SHOW THAT, ON THE BASIS OF PRICE, ITS TAX STRUCTURE WAS NOT DISCRIMINATORY, THE COURT WOULD NOT HAVE FOUND IT TO HAVE INFRINGED THE TREATY, EVEN THOUGH THE TAX STRUCTURE COULD HAVE APPEARED TO BE DISCRIMINATORY ON THE BASIS OF ALCOHOLIC STRENGTH.

IN SHORT :

1. A TWO TIER STRUCTURE AS DESCRIBED IN YOUR LETTER WITH A 15 DEGREE THRESHOLD APPEARS TO RAISE NO PROBLEMS WHATSOEVER
2. SUCH A STRUCTURE WITH A 10 DEGREE THRESHOLD WOULD NOT NECESSARILY BE CONTRARY TO THE TREATY BUT ITS LEGALITY WOULD NEED TO BE INVESTIGATED FURTHER ON THE BASIS OF THE CONSIDERATIONS OUTLINED ABOVE.

REGARDS.

M WAELBROECK

23DEC 83

75 051+4

8812725DCLLON G
24787 LWKBRU B

(P-8)

The Scotch Whisky Association

Limited Liability

Registered in Scotland No. 35148

TEL: 031-229 4383

TELEX: 727626

20 ATHOLL CRESCENT · EDINBURGH EH3 8HF
REGISTERED OFFICE

HFOB/RES/SD

13th January 1984

STRICTLY PRIVATE AND CONFIDENTIAL

J O Kerr Esq
Principal Private Secretary to
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

Dear Mr Kerr

I refer to our earlier correspondence regarding our forthcoming meeting with the Chancellor at 3.00pm on Thursday 19th January, and now enclose a Report prepared in conjunction with our economic consultants, the proposals in which we would wish to discuss with the Chancellor. As you will see, I have enclosed four copies as I anticipate you will wish to circulate a copy to other Treasury Ministers and officials. You might like to know, however, that I have sent two copies under separate cover to Charles Freedman at King's Beam House.

I am also enclosing a copy of an Opinion given by Professor Waelbroeck, eminent EEC Counsel, confirming that a two-tier tax system of the kind described in our Report, with a threshold of 15% volume, would be in conformity with Community Law.

I can also confirm that our delegation will comprise the following:

Mr J A R Macphail OBE	Chairman
Mr D C Kerr	Vice Chairman
Mr D Mackinlay	Chairman of the Information Committee
Colonel H F O Bewsher OBE	Director General
Professor D Mackay	Economic Adviser

Since much of the material in our Report is rather technical in nature, my Chairman feels it might be helpful to the Chancellor and his officials to include our Economic Adviser in our delegation, and we very much hope the Chancellor will be agreeable to this.

J O Kerr Esq/

2

13th January 1984

We much look forward to seeing the Chancellor on 19th January, and if, in the interim, there should be any queries, I hope you will not hesitate to contact me.

With kind regards

Yours sincerely

Bill Bewsher

H F O Bewsher
Director General

Enc

CONFIDENTIAL



Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

FROM: C FREEDMAN
18 January 1984

CHANCELLOR OF THE EXCHEQUER

cc Minister of State
Mr Battishill
Mr Monger
Mr Griffiths
Mr Walton
Mr Lord
Mr Portillo

BRIEF FOR MEETING WITH SCOTCH WHISKY ASSOCIATION (SWA):
19 JANUARY 1984

1. The Scotch Whisky Association is the major trade association representing the producers of Scotch Whisky. It has been customary for them to be seen at Budget time and your predecessor met the Association in each of the last 4 years. Those attending will be:-

Mr J A R Macphail

Chairman of the SWA since last year. He is also Chairman of Highland Distilleries Company plc and the North British Distillery Company Ltd.

Mr D C Kerr

Vice Chairman of the SWA and Chairman of its Exports Committee. Director of DCL.

Mr D Mackinlay

Chairman of the Information Committee of SWA and Chairman of Charles Mackinlay and Company Ltd.

Col H F O Bewsher OBE

Director-General of the SWA

Mr D Mackay

Economic Adviser of the SWA

Internal circulation:-

CPS
Mr Knox

Mr Whitmore
Mr Wilmott

Mr Stark
Mr Norgrove

2. The Association will not expect you to give commitments, or to comment in detail on the 30 page booklet you received last Monday. You may wish to invite the Association to present the substance of their case orally, bringing out or supplementing particular points. If you should want to question the Association about their proposals, paragraph 10 of this paper below may be particularly relevant.

THE SCOTCH WHISKY INDUSTRY

3. In 1982-83, the excise duty on whisky raised around £610 million (payment of some £150 million of which was deferred until 1983-84). Duty receipts from whisky account for almost 20 per cent of the total duty raised from alcoholic drinks. The SWA point to widespread current under-utilisation of capacity and substantial job losses (paragraph 5.2 and Appendix 3 of its paper). Consumption of Scotch whisky increased rapidly in the two decades from 1960 onwards, reaching a peak in 1978. From 1979 the industry suffered declining demand not only in the UK but also in the much more important export markets (which account for some 80-85 per cent of sales - detailed figures being in Annex 1 to this note). The over-optimistic forecasts of growth that the industry made in the 1970s resulted in the massive over-production of whisky which is currently maturing in warehouse. Stocks held by the industry are said to stand at the equivalent of about 9,000 million bottles (10 years sales). A consequence has been a reduction in the production of whisky considerably greater than the fall in demand. Present indications are, however, that the decline in domestic sales has levelled off; there may have been a slight improvement. But a recently published analysis suggests a continuing lack of buoyancy in overseas markets.

SWA MAIN REPRESENTATIONS

4. Against this background, the essence of the SWA's case is that duty on Scotch whisky is too high in comparison with other alcoholic drinks and this distorts competition; that revalorisation (under your predecessor's "sensible presumption") magnifies the discrimination; that the best and most logical way of dealing with this is to move

to charging duty on a "per degree of alcohol" basis; and that the wine/beer judgment "requires fundamental tax changes and therefore provides an opportunity for the reconsideration of the basis on which excise duty is levied in the UK".

5. We have traditionally imposed higher duties on spirits and this position is normal overseas. Adoption of the duty structure advocated by the SWA would be a radical departure from the present system. It could impose unwelcome restrictions on your future freedom of manoeuvre and could prove a somewhat unwieldy fiscal instrument. On the other hand, it must be accepted that the wine/beer judgment requires more favourable duty treatment of table wines - the most buoyant sector of the UK market for alcoholic drinks; and that the SWA proposal would limit the preferential treatment for table wines. A fundamental reorganisation of the drink duties would of course have far-reaching effects on all sections of the drinks industry and the interests of the SWA are not the only ones to be taken into account. The trade was unable to agree on joint representations about the wine/beer case. In their submission of 21 December to the Minister of State the Brewers Society, the Wine and Spirit Association and the National Association of Cider Makers were against restructuring on a strength basis the wine duties. The SWA are aware of this.

6. Duty weight. Excise duty on a 75 cl bottle of whisky is some £4.56. With VAT the total tax on a typical bottle priced at £7.40 is £5.33, just under 75%. However the duty has not maintained its real value and is now about 28% below the peak of 1975. Indexation has not been applied rigidly. In 1982, for example, the duty on spirits was raised by only half the rate of inflation in recognition of the problems being experienced by the whisky industry. Overall increases in spirits duty have been relatively small in the last four Budgets so that the differential between spirits and other alcoholic drinks has tended to narrow (relevant figures being in Annex 2 to this paper).

7. The trade has had other help. It is estimated that the introduction of duty deferment in February 1983 was worth about £150 million on a once-for-all basis to Scotch whisky producers (though the trade claim that much of this benefit was offset by a requirement introduced in 1983 to pay duty on the quantity and strength declared on bottle labels etc). Also, although the SWA refer to the subsidies received by the wine community in 1982 (paragraph 5.4), the benefits from the European Community have not been restricted to wine producers. As a result of successful negotiations in the Community, distillers have received over £100 million in cereal refunds since Autumn 1981.

8. Revenue calculations. The SWA calculations take into account "cross-price elasticities" which attempt to measure the effect on demand for one type of alcoholic drink when the prices of other drinks change. Our calculations take no account of such elasticities because of the lack of any firm evidence on their size and even their existence. The different methods of calculation do not appear to affect significantly the resulting revenue estimates. Duty is, of course, far from being the sole determinant factor in consumer choice, as between one drink and another.

9. Estimated shortfalls. The Association raises the question (paragraph 6.5 of its paper) of Budget revenue estimates exceeding revenue outturns. They suggest that this may in part be due to underestimation in the Treasury model of the price elasticity of spirits. In fact, the SWA's elasticity figure (0.9) is actually lower than our own (1.3). The estimate for spirits for 1982-83 was £990 million after provision had been made for the expected effects of duty deferment; the outturn was £965 million. The estimate anticipated that deferment would move £225 million of spirits revenue from 1982-83 to 1983-84. In the event, deferred payments were some £50 million greater than had been allowed for in the estimate; and this more than accounts for the £25 million shortfall in 1982-83.

10. We believe that SWA proposals for the future structure of duties on alcoholic drinks could in practice adversely affect both Scotch

whisky and the Exchequer. For marketing reasons the SWA have been pressing for the legal definition of Scotch whisky to include a minimum strength requirement of 40 per cent, and such a criterion is likely to appear in the revised MAFF definition now being discussed by Customs, MAFF and SWA officials. The new duty structure which the Association favours (Case D, paragraph 6.23 and Appendix 5 of the SWA paper), produces a marginal duty rate of nearly £20, compared with the present level for spirits of £15.19. This would significantly increase the duty advantage enjoyed by spirits containing less than 40 per cent alcohol (such as gin and vodka). The advantages for low strength spirits drinks such as Bailey's Irish Cream, at a strength of 17 per cent compared with whisky at 40 per cent, would be especially marked; the duty differential on a 75 cl bottle would rise from its present £2.62 to £3.43. Moreover, producers of aperitifs such as vermouths and sherry could reduce duty liability by cutting alcoholic strengths from 17½% to say 16%, thus intensifying competition with whisky.

11. Health. The Association argues that spirits are no more damaging to health than any other drinks. Whilst it remains Government policy that indirect taxation is not a suitable vehicle for regulating consumption, health considerations are clearly of great importance and must continue to be taken into account when duty rates are reviewed. You received a letter from the Secretary of State for Social Services on 6 January arguing in favour of, at the very least, revalorisation of the drinks duties. He also hoped that in considering your response to the wine/beer judgment you would avoid the "serious embarrassment" resulting from any increase in the total consumption of alcohol.

CF

C FREEDMAN

P2 deals with alcohol.

WHISKY CLEARANCES AND EXPORTS

(Million litres of
pure alcohol)

	<u>Clearances</u>	<u>Exports</u>	<u>Total</u>
1960	18.8	60.1	78.9
1965	23.4	106.0	129.4
1970	27.3	161.1	188.4
1975	42.4	231.7	274.1
1978	48.8	274.1	322.9
1979	52.5	262.4	314.9
1980	50.2	249.9	300.1
1981	47.7	239.7	287.4
1982	44.8	252.2	297.0

DUTY RATIOS BETWEEN WHISKY AND OTHER ALCOHOLIC DRINKS

	WHISKY ¹ : CIDER ³ duty ratio	WHISKY: BEER ² duty ratio	WHISKY: WINE ⁴ duty ratio	WHISKY: FORTIFIED WINE ⁵ duty ratio
Pre-1980 Budget	12.76:1	2.71:1	1.53:1	2.15:1
Pre-1981 Budget	12.75:1	2.51:1	1.53:1	2.15:1
Pre-1982 Budget	12.27:1	2.09:1	1.50:1	1.88:1
Pre-1983 Budget	11.53:1	1.96:1	1.42:1	1.78:1
Pre-1984 Budget	10.19:1	1.94:1	1.41:1	1.77:1

1. Based on an alcoholic strength of 40 per cent by volume.
2. Based on an OG of 1038⁰ (3.5 per cent by volume).
3. Based on an alcoholic strength of 6.5 per cent by volume.
4. Based on an alcoholic strength of 10.5 per cent by volume.
5. Based on an alcoholic strength of 17 per cent by volume

M/S 24 JAN 1984

(+hemp)

BF 27/2

MS

From Major General W. D. Mangham CB

The Brewers' Society

42 PORTMAN SQUARE · LONDON W1H 0BB

TELEGRAMS · BREWERS' SOCIETY · LONDON W1
TELEPHONE · 01-486 4831 (10 LINES)

19th January, 1984

The Rt. Hon. Nigel Lawson MP,
The Chancellor of the Exchequer,
H. M. Treasury,
London SW1P 3AG.

BREWERS
SOC.
19-1-84

Dear Chancellor,

Following my letter of the 17th January, I enclose as promised the memorandum on Excise Duty. (Attached, last page).

Yours sincerely,
David Layman

Director

MINISTER OF STATE	
REC	24 JAN 1984
ACTION	MR FREEDMAN
	PS/ST, B/ST, B/ST
	Mr Cassell
	Mr Mander
	Mr Griffiths

Mr F. Mangham
Mr Lord

Mr Portillo

PS/ST

MST

Action MST. 19/1

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THE BREWERS' SOCIETY

Memorandum to the Chancellor of the Exchequer

A. Updating Comment

(i) The beer market, fiscal 1983/84.

1. In our October paper we forecast that there might be a 1% increase in beer production in the calendar year 1983. At the end of November, beer production for the eleven months was showing a growth of 1.1% over the same period of last year and so thus our forecast is virtually certain to be achieved. Beer production appeared to improve in the last quarter of 1983, but this could be a false picture as the outturn in the fourth quarter of 1982 was particularly disappointing. We think that it is possible that by the end of the current fiscal year (March 1984) beer production will still be about 1% ahead of the same period last year.

2. Our analysis indicates that the only reason for this expected increase this year was the exceptional summer weather. As demonstrated in our October paper we believe that the effect of the summer on volume was considerably more than 1%, which means that the underlying trend in the market is still down.

(ii) Consumption trends - all drinks compared

3. The table below shows the change between the 12 months ending September 1983 and September 1982: spirits is now growing slightly (+ 0.9%) while wine is surging ahead at 7.4% (table wine + 11.6%, sparkling and fortified wine - 2.4%). However, beer is still declining slightly (- 0.1%).

4. What is really striking is the performance of wines and spirits in the first six months of the current fiscal year compared to the same period last year. Wine has increased by 10.2%, analysed between table wine + 11.4% and fortified and sparkling wine (showing a surge in the period July to September) at + 6.5%. Spirits has increased by 10.6%, its performance being about the same in both quarters, while beer has only increased by 1.3%. As noted above even this growth was due entirely to the good summer.

Table 1 % change on same period of previous year

Period	Beer (a)	Spirits (b)	Wine of Fresh Grape (b)		
			Total	NE15	of which Fortified & Sparkling
1982IV	- 2.7	same	+ 5.4	+ 13.3	- 7.9
1983 I	+ 0.5	- 7.0	+ 4.8	+ 9.8	- 5.8
II	- 4.5	+ 11.6	+ 9.3	+ 11.7	+ 0.6
III	+ 6.2	+ 10.1	+ 10.9	+ 11.1	+ 10.2
12 months	- 0.1	+ 0.9	+ 7.4	+ 11.6	- 2.4
1st six months of current fiscal year	+ 1.3	+ 10.6	+ 10.2	+ 11.4	+ 6.5

(a) production.

(b) charged with duty.

(iii) The beer market, fiscal year 1984/85

5. Beer is vulnerable for a number of reasons:-

(a) the beer drinking base is much narrower than that for wine and spirits.

Table 2 % of total population who drink

	Any drink	Beer	Wine	Spirits
All adults	93.6	66.5	78.3	76.6
Men	95.8	87.4	75.1	80.1
Women	91.6	47.3	81.2	73.5

(b) furthermore, beer is consumed by the social classes most hit by the recession:-

Table 3 % of each drink consumed by broad social classes

Social Class	Proportion of population in each class - %	% of each drink consumed		
		Beer	Wine	Spirits
ABC1	39	30	50	45
C2DE	61	70	50	55

90% of all beer is consumed by men and 70% of it is drunk by only 25% of beer drinkers. High individual beer consumption has been for many years associated with heavy industry, which is in decline.

- (c) the recession has covered four to five years and during this time drinking habits have started to change. "Going out for a drink" is less popular and has led to the closure of clubs in the North.
- (d) thus the evidence suggests that the underlying trend is downwards even though the economy is improving.

6. However, in 1984/85, there will also be special problems:-

- (a) the growth in 1983 was weather led. Assuming average weather in 1984 then beer production must inevitably lose this bonus of 1½% to 2%.
- (b) the beer-wine judgement. However this judgement is implemented, beer must suffer. Beer drinkers already consume 60% of spirits and 55% of wine and, consequently, will be susceptible to changes in the relative price between beer and the other drinks.
- (c) beer is price sensitive due to changes in the economic environment, this situation has developed substantially in recent years.

7. In the light of all these factors the Society believes that a decline in beer volume in 1984-85 is virtually inevitable; the magnitude could be several percent. In fact, trade forecasts do not identify any optimistic features as all the relevant factors appear negative.

B. IMPLEMENTING THE COURT DECISION

(i) Time Period

8. The key element of the Society's joint submission with the Wine and Spirit Association and the Cider Manufacturers Association dated 21st December was the need to spread the harmonisation procedures over two normal budgets, that is, over a period of some 13 months. Such a timescale is essential if the Chancellor wishes to minimise the disruption to both the beer and wine markets and yet maintain a reasonable excise duty yield from all drinks without increasing taxation beyond the rate of inflation. Beer and wine are often put side-by-side on supermarket shelves and the post budget price advantage to wine will be clear to all potential buyers. In order to minimise the harm to beer that price adjustment must be as small as possible. This can best be achieved by altering the duties

over two budgets, an argument which was accepted by the body representing wine importers, the Wine and Spirit Association. There are, of course, many EEC precedents for acting in this manner.

(ii) Magnitude of duty increase

9. There has been press speculation that "the Chancellor will put on 1p a pint for indexation and another 1p a pint for harmonisation". This would mean that excise duty would be increased significantly ahead of the retail price index and would inevitably lead to a volume loss. One major benefit of spreading the increase over two budgets is that the cost to the Treasury of harmonisation can be met by duty valorisation aided by the natural volume growth of wines, cider and (now) spirits.

(iii) Principles of harmonisation

10. The three associations also pressed in the joint submission that:-

- wine NE 15% should continue to be taxed as one band.
- the ratio between this band and beer of 1038⁰ O.G. should eventually be 3:1
- spirits, fortified wine and cider should also bear their share of the duty burden brought about by changes in table wine duty.
- the current level of progressivity between beer and spirits should be maintained.

We regard these principles as fundamental to the damage limitation exercise following the beer-wine judgement.

(iv) Spirits

11. The current tax on alcohol ratio of 1:2.1 between beer and spirits is low both historically and internationally; action taken by the Government in recent years to reduce the ratio is contrary to international behaviour. Our historic ratio in the U.K. is 3:1 and the international average is higher than that (see Autumn 1982 paper). There are major social reasons for returning to this level as soon as possible and certainly for not reducing it any further.

12. Since May 1979, the tax burden on beer has increased by 50% in constant price terms, while that on spirits has only grown by 2%. However, the increase in the non-tax element is about the same and, consequently, the retail price of whisky has grown by only 4% compared to beer at 19%. This has given whisky the edge in the market place. The supporting data is:-

Table 4 Beer and whisky: Comparison of tax and non-tax elements in price

	May 1979	July 1983		increase in constant price (i.e. after allowing for inflation)
		current prices	in May 1979 prices	
<u>Retail price</u>				
- 75cl bottle of popular brand of whisky £	4.63*	7.49	4.81	4%
- average of pint of draught beer in public bar pence	33.4	62.2	39.9	19%
<u>Total tax (excise duty plus VAT)</u>				
- whisky £	3.47	5.53	3.55	2%
- beer pence	10.0	23.3	15.0	50%
<u>Total non-tax</u>				
- whisky £	1.16	1.96	1.26	9%
- beer pence	23.4	38.9	25.0	7%

*July 1979 figure adjusted for change in rate of VAT.

(v) Employment

13. The Society reiterates its view made in both 1982 and 1983, that the policy of increasing taxes on beer significantly ahead of the retail price index has had very serious consequences for output and employment. The current decline of the beer market has already led to the shedding of some 10,000 jobs and a further volume decline will add to this number. The brewing industry is a major U.K. industry - 96% of beer consumed here is produced in the U.K. from raw materials grown here and in packages made here.

14. Pubs and clubs are social centres which give employment throughout the U.K., often in small country towns and villages where alternative employment prospects are poor. Except for some Scottish outlets, pubs and clubs depend for their viability upon the beer trade - not on wines or spirits.

(vi) Growth of alcohol consumption

15. In our October paper we noted that in the two decades 1961 and 1981, the growth in alcohol consumption had been nearly 50% greater than the growth in bulk consumption of alcoholic drinks. This is because of the increased consumption of the stronger drinks, namely wines and spirits. The Department of Health and Social Services has publicly expressed concern about the growth in alcohol consumption

C. Conclusion

16. The European Court judgement means that the treatment of excise duties in this year's budget will be a watershed. It requires the Chancellor to take action which will enhance the sales of a growth product, wine, and damage those of a declining one, beer. Even without the need to implement this judgement, the sales prospects for beer in 1984/85 would be poor compared to the likely growth in wine, spirits and cider.

17. It is against this background that we ask for a "damage limitation exercise". In order to achieve this we believe it to be absolutely necessary for:-

- the judgement to be implemented over a period of some 13 months.
- the rise in excise duty on beer not to exceed the rate of inflation.
- the tax burden to be borne by all alcoholic drinks.

18th January, 1984.

From Major General W. D. Mangham CB

The Brewers' Society

42 PORTMAN SQUARE · LONDON W1H 0BB

TELEGRAMS · BREWSOCIETY · LONDON W.1
TELEPHONE · 01-486 4831 (16 LINES)

The Rt. Hon. Nigel Lawson MP 17th January
The Chancellor of the Exchequer,
H. M. Treasury,
London SW1P 3AG.

TREASURY - MCU	
REC'D.	18 JAN 1984
ACTION	Clifford Board 82/
SIGNATURE	
Ref. No.	

Dear Chancellor,

The Chairman of the Society, Mr. Charles Tidbury (Chairman of Whitbread & Co., PLC), would be very pleased if he and I could see you, if possible before the end of January, to discuss the position of the industry and the treatment of beer in the forthcoming Budget.

You will be aware that the Society and your Minister of State (Barney Hayhoe MP) have been in close contact over the difficult question of the harmonisation of excise duty on wine/beer. At his request, we carried out a detailed study with the Wine and Spirit Association and the Cider Makers on the most effective way of implementing the Court of Justice ruling.

I look forward to hearing from you, and will forward a memorandum covering the major points later this week.

Yours sincerely,
Barney Hayhoe
Director

CH. BREWERS' SOCIETY	
REC'D.	18 JAN 1984

From Major General W. D. Mangham CB

The Brewers' Society

42 PORTMAN SQUARE · LONDON W1H 0BB

TELEGRAMS · BREWERS' SOCIETY · LONDON W.1
TELEPHONE · 01-486 4831 (10 LINES)

19th January, 1984

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The Chancellor of the Exchequer,
H. M. Treasury,
London SW1P 3AG.

Dear Chancellor,

Following my letter of the 17th
January, I enclose as promised the
memorandum on Excise Duty.

*Yours sincerely,
David Mangham*

Director EXCHEQUER

REC.	19 JAN 1984
ACTION	MST.
COPIES TO	

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(ii) Consumption trends - all drinks compared

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		current prices	in May 1979 prices	
<u>Retail price</u>				
- 75cl bottle of popular brand of whisky £	4.63*	7.49	4.81	4%
- average of pint of draught beer in public bar pence	33.4	62.2	39.9	19%
<u>Total tax (excise duty plus VAT)</u>				
- whisky £	3.47	5.53	3.55	2%
- beer pence	10.0	23.3	15.0	50%
<u>Total non-tax</u>				
- whisky £	1.16	1.96	1.26	9%
- beer pence	23.4	38.9	25.0	7%

*July 1979 figure adjusted for change in rate of VAT.

(v) Employment

13. The Society reiterates its view made in both 1982 and 1983, that the policy of increasing taxes on beer significantly ahead of the retail price index has had very serious consequences for output and employment. The current decline of the beer market has already led to the shedding of some 10,000 jobs and a further volume decline will add to this number. The brewing industry is a major U.K. industry - 96% of beer consumed here is produced in the U.K. from raw materials grown here and in packages made here.

14. Pubs and clubs are social centres which give employment throughout the U.K., often in small country towns and villages where alternative employment prospects are poor. Except for some Scottish outlets, pubs and clubs depend for their viability upon the beer trade - not on wines or spirits.

(vi) Growth of alcohol consumption

15. In our October paper we noted that in the two decades 1961 and 1981, the growth in alcohol consumption had been nearly 50% greater than the growth in bulk consumption of alcoholic drinks. This is because of the increased consumption of the stronger drinks, namely wines and spirits. The Department of Health and Social Services has publicly expressed concern about the growth in alcohol consumption

C. Conclusion

16. The European Court judgement means that the treatment of excise duties in this year's budget will be a watershed. It requires the Chancellor to take action which will enhance the sales of a growth product, wine, and damage those of a declining one, beer. Even without the need to implement this judgement, the sales prospects for beer in 1984/85 would be poor compared to the likely growth in wine, spirits and cider.

17. It is against this background that we ask for a "damage limitation exercise". In order to achieve this we believe it to be absolutely necessary for:-

- the judgement to be implemented over a period of some 13 months.
- the rise in excise duty on beer not to exceed the rate of inflation.
- the tax burden to be borne by all alcoholic drinks.

18th January, 1984.

From Major General W. D. Mangham CB

The Brewers' Society

42 PORTMAN SQUARE · LONDON W1H 0BB

TELEGRAMS · BREWSOCIETY · LONDON W.1
TELEPHONE · 01-486 4831 (16 LINES)

The Rt. Hon. Nigel Lawson MP 17th January, 1984
The Chancellor of the Exchequer,
H. M. Treasury,
London SW1P 3AG.

H.M. TREASURY - MCU	
REC'D.	18 JAN 1984
ACTION	Ch/Ex Registry 82/2
SIGNATURE	
REF. No.	

Dear Chancellor,

The Chairman of the Society, Mr. Charles Tidbury (Chairman of Whitbread & Co., PLC), would be very pleased if he and I could see you, if possible before the end of January, to discuss the position of the industry and the treatment of beer in the forthcoming Budget.

You will be aware that the Society and your Minister of State (Barney Hayhoe MP) have been in close contact over the difficult question of the harmonisation of excise duty on wine/beer. At his request, we carried out a detailed study with the Wine and Spirit Association and the Cider Makers on the most effective way of implementing the Court of Justice ruling.

I look forward to hearing from you, and will forward a memorandum covering the major points later this week.

Yours sincerely,
Barney Hayhoe
Director

CH/EXCHEQUER	
REC.	18 JAN 1984
ACTION	
COPIES TO	

7/2

FROM: MISS D YOUNG

DATE: 26 January 1984



ENQUIRY ROOM (x6)

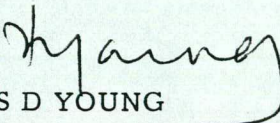
**CHANCELLOR'S MEETING WITH THE BREWER'S SOCIETY
ON 7 FEBRUARY AT 3.00 P.M. IN HMT**

Those attending:-

Major General W D Mangham

Mr C H Tidbury

Mr Freedman (C+E)


MISS D YOUNG

The Brewers' Society

42 PORTMAN SQUARE · LONDON W1H 0BB

TELEGRAMS · BREWSOCIETY · LONDON W.1
TELEPHONE · 01-486 4831 (16 LINES)

Alpha - PL fix
MST
Guthrie
Freedman

The Rt. Hon. Nigel Lawson MP 17th January, 1984
The Chancellor of the Exchequer,
H. M. Treasury,
London SW1P 3AG.

Dear Chancellor,

The Chairman of the Society, Mr. Charles Tidbury (Chairman of Whitbread & Co., PLC), would be very pleased if he and I could see you, if possible before the end of January, to discuss the position of the industry and the treatment of beer in the forthcoming Budget.

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I look forward to hearing from you, and will forward a memorandum covering the major points later this week.

John Sweeney
Barney Hayhoe
Director

C
The original letter never reached us. ExE's advice is that you should see them - Chancellors traditionally do. Your present thoughts are relatively generous to beer - you could - at no cost to yourself let them feel (after the Budget) that you had listened to them - a cost the credit later!
The MST's office think you probably should do it yourself - altho' he, well, if care, see them instead. Someone will have to.

B.

OK
a v
buy
mtg
(with MST)

7 Feb 3pm
8 Feb 10am

From Major General W. D. Mangham CB

The Brewers' Society

42 PORTMAN SQUARE · LONDON W1H 0BB

TELEGRAMS · BREWSOCIETY · LONDON W.1
TELEPHONE · 01-486 4831 (16 LINES)

7/2
cc PS/MSST
Mr Griffiths
Mr Freedman
cc Mr Baillie (G.R.)
Enquiry Rm (X6)

27th January, 1984

The Rt. Hon. Nigel Lawson MP
The Chancellor of the Exchequer,
H. M. Treasury,
Parliament Street,
London SW1P 3AG.

See Chatter,

I am writing to confirm the arrangements we made yesterday for our meeting with you in your Treasury office in Parliament Street on Tuesday, 7th February, at 3 p.m., to discuss Excise Duties.

Charles Tidbury, Chairman of the Brewers' Society and Chairman of Whitbread & Co., PLC., will be accompanying me.

We look forward very much to seeing you.

John Ince
David Mayhew

Director

From Major General W. D. Mangham CB

(7/2) er PS/MST
Mr Bright
Mr Freedman
cc Mr Baillie (G&E)
Enquiry Rm (X6)

The Brewers' Society

42 PORTMAN SQUARE · LONDON W1H 0BB

TELEGRAMS · BREWSOCIETY · LONDON W.1
TELEPHONE · 01-486 4831 (16 LINES)

27th January, 1984

The Rt. Hon. Nigel Lawson MP
The Chancellor of the Exchequer,
H. M. Treasury,
Parliament Street,
London SW1P 3AG.

Dear Charles,

I am writing to confirm the arrangements we made yesterday for our meeting with you in your Treasury office in Parliament Street on Tuesday, 7th February, at 3 p.m., to discuss Excise Duties.

Charles Tidbury, Chairman of the Brewers' Society and Chairman of Whitbread & Co., PLC., will be accompanying me.

We look forward very much to seeing you.

John Sweeney
David Mayhew

Director

The Brewers' Society

42 PORTMAN SQUARE · LONDON W1H 0BB

TELEGRAMS · BREWERS' SOCIETY · LONDON W1
TELEPHONE · 01-486 4831 (10 LINES)

From The Chairman

10th February, 1984

The Rt. Honble. Nigel Lawson, M.P.,
The Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London SW1P 3AG.

Dear

Chancellor.

Thank you so much for giving General
Mangham and me such an understanding
hearing last Tuesday.

We do hope that you can find a way
round the E.E.C. problem.

Yours

Sincerely

Charles Tidbury

(C.H. Tidbury)

CH/EXCHEQUER	
REC.	14 FEB 1984
ACTION	MST
COPIES TO	Mr Guffitts
	Mr Lord
	PS/C&E
	Mr Freedman/C&E
	Mr Whitmore

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M distribute

-10 MST Guffitts, Lord PS/C&E

Mr Freedman

Mr C&E Whitmore



HOUSE OF COMMONS
LONDON SW1A 0AA

CH/EXCHEQUER	
REC.	20 FEB 1984/20/2
ACTION	MST
COPIES TO	FST

17th February, 1984

Need he see?
I doubt it.

(Handwritten initials)

Rt Hon Nigel Lawson, MP
The Treasury,
Great George Street,
LONDON.

Dear Nigel,

I would be grateful for your comments on the enclosed points raised by the Scotch Whiskey Association.

2 lines a Scotchman!

Yours sincerely,

(Handwritten signature)

Tom Dalyell, MP

The Scotch Whisky Association

Limited Liability

Registered in Scotland No. 35148

TEL: 031-229 4383

TELEX: 727626

20 ATHOLL CRESCENT · EDINBURGH EH3 8HF

REGISTERED OFFICE

JH/KPT/WD

14th February 1984

Tam Dalyell Esq
Member of Parliament for
Linlithgow

Dear Mr Dalyell,

We are writing to you in a matter affecting the Scotch whisky industry because you have the undernoted Scotch whisky establishments in your Constituency and will, we believe, be concerned to protect the employment which they generate and the valuable exports of Scotch whisky to which they contribute.

The Whisky Regulations 1984, which will shortly be laid before Parliament, are intended to tighten up the definition of Scotch whisky. This will be of value to United Kingdom consumers. It will also be extremely important for Scotch whisky exports. Scotch whisky is a matured product which cannot compete on price with cheap unmatured alcohol manufactured abroad. Its success has been due to its reputation and prestige. A strict definition is important for the protection of that prestige.

Unfortunately one aspect of the proposed tighter definition is now causing some difficulty. It is the question of the minimum strength at which the product should be sold. Scotch whisky has long been sold in the United Kingdom at 40% vol. All the international brands are exported to the rest of the EEC at this strength. However, because of high taxation, certain traders in the United Kingdom and in the EEC have begun to sell whisky below the traditional strength. In the United Kingdom whiskies are offered at 37.5% vol. at prices which look attractive because of the tax saving but which in practice represent a significantly higher unit price (and therefore higher profits) than those of comparable brands at traditional strength.

In the Continental EEC, the situation is worse. The attempts of overseas proprietors of brands of Scotch whisky to undercut one another through tax savings have led to a "spiralling down" of strength from 40% vol. through 37.5% vol., 35% vol. and 32% vol. to, now, brands as low as 21% vol.: in effect a half bottle of whisky in a full bottle, topped up with water.

This practice is damaging in three ways:

- It lowers the prestige upon which future exports of Scotch whisky depend.

- It encourages the export of whisky in bulk for bottling abroad. The swing to overseas bottling reduces foreign earnings because whisky shipped in bulk commands a lower price. More important, it reduces employment in the bottling section of the Scotch whisky industry and in associated bottle and packaging manufacture.
- It misleads the consumer who, even if he notices the statement of lower strength, finds it difficult to calculate the value for money.

We therefore believe that a minimum strength of 40% vol. should be part of the stricter definition of Scotch whisky in the Whisky Regulations 1984. This requirement would take effect (as a result of local law or of bilateral agreements) in the most important EEC markets.

We should emphasise that the Scotch Whisky Association includes companies, large and small, which are responsible for over 95% of Scotch whisky production and exports. The conviction that there is an urgent need for a 40% vol. minimum strength is also shared by the two largest Trade Unions in the industry.

Certain bottlers and retailers in the United Kingdom who are currently selling lower strength whisky have however raised objections based mainly on the claim that a minimum strength reduces consumer choice. This is not true. There is a huge choice of brands and prices of whisky at the traditional strength. Moreover, the consumer controls the strength at which he consumes whisky by the amount of water or mixer which he adds. For that reason we do not believe that this is truly a question of consumer choice.

We should also make it clear that the legal advice given to the Association indicates that legislation permitting the sale in the United Kingdom of "under-strength Scotch whisky" - no matter how stringent a warning is required on the label - would inhibit the Association from enforcing the minimum strength requirement in its important export markets.

Against this background, and in view of the threat to both employment and exports, we should be very grateful for your support of a minimum strength of 40% vol. as part of the definition of Scotch whisky. If you feel able to give this support, we would be particularly grateful if you would write as soon as possible to Mrs. Peggy Fenner MP, Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food, Whitehall Place, London SW1 indicating that you would speak to

this effect if the matter is debated in the House. It would also be very helpful if you would send a copy of that letter to Mr. John Mackay MP, Under Secretary of State for Scotland, Dover House, Whitehall, London SW1.

If you would like any further information in this matter, please do not hesitate to get in touch with the undersigned. The Scotch Whisky Association has produced a detailed memorandum, copy of which I would be happy to send you if you feel that it would be useful.

Yours sincerely,

John Hedley

(J Hedley)

Copies to: Arthur Bell & Sons plc
J & W Hardie Limited
Wm Sanderson & Son Ltd



C
As well as the brief and the
SWA representations (they have
a useful summary at the front!),
we have also included the
brewers' loc. reps and Mr Foster's
bidding letter.

Also attached is the consolidated
note from CAE on wine/beer - altho'
it does, of course, make little
reference to spirits - it being one
of the chief burdens of the SWA's
complaint that the ECT agreements
on relative taxation are not
crossed thro' to spirits!

B.



NOTE OF A MEETING HELD IN HMT ON THURSDAY 19th JANUARY
WITH THE SCOTCH WHISKY ASSOCIATION TO DISCUSS THEIR
PRE-BUDGET REPRESENTATIONS

Present

Chancellor of the Exchequer
 Minister of State
 Mr Battishill
 Mr Griffiths
 Mr Freedman - C&E
 Mr Whitmore - C&E

SWA

Mr Macphail OBE
 Mr Kerr
 Mr Mackinlay
 Col. Bewsher OBE
 Professor Mackay

Mr Macphail said that the Association had made its case in some detail in the report which they had sent to the Chancellor in advance of the meeting, but he would like to make some brief references to it. The Association had long felt that spirits were discriminated against by the taxation system. All drinks competed against each other in the market place and price was a very important consideration among purchasers; successive fiscal policies had served to widen the price disadvantage suffered by spirits, and had therefore distorted competition. The price elasticities for spirits were also much higher than those for wine and beer. They were not convinced by the health arguments against consumption of spirits, and would point out that in actual consumption, the strength was normally diluted considerably. It could also no longer be maintained that the native spirits industries enjoyed sufficient success to absorb the effects of this discriminatory taxation system. By the end of October 1983, domestic consumption had fallen by nearly 2 per cent, and exports by 9 per cent. The worrying trend was the increased percentage of domestic markets taken up by the cheaper whiskys. The Association recognised that the ECJ judgement required the Chancellor to do something about the relative taxation of beer and wine, but urged strongly that this should not be at the expense of the native spirits industry. Wine produced only a small percentage of the total revenue from alcoholic drinks, and it seemed inappropriate that the necessary adjustment to the taxation of such a small sector should have to be done at the expense of the fundamental impact on the beer and spirits sectors, which provided over 80 per cent of the total revenue. Mr Macphail also reminded the Chancellor that in looking at the question



of the impact of duty on consumption, it was also necessary to look at the impact of the consequential VAT, and also at the impact on the VAT receipts that would result from reduced consumption. Dr Mackay added that the Association had looked at some cases where these volume changes could effect the VAT considerably, which he would leave with Customs and Excise officials for examination.

2. The Chancellor thanked Mr Macphail for their representations, which he had read very carefully and with great interest and had found it very clear and helpful. He could not, of course, comment in any detail on the case they had set out, although he was prepared to admit that the Commission's intervention had not helped him in the already difficult Budget-making process. He reminded the Association that recent moves had not always been to the detriment of the industry; the last Budget had included provision for duty deferment for which the Association had been pressing for many years. Mr Macphail acknowledged this, but pointed out in return that the changing accounting practices introduced by Customs and Excise had had the effect of clawing back nearly 75 per cent of the benefit.

3. The Chancellor repeated that he thought the Association had set out its case with admirable clarity, and he would ask Customs and Excise to go through the details of it for him. He had found the meeting very helpful.

JS.

MISS J C SIMPSON

20 January 1984

Distribution

Those present
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Monger
Mr Watson
Mr Walton
Mr Bonney
Mr Lord



10 DOWNING STREET

THE PRIME MINISTER

2nd February 1984

Thank you for your letter of 25th January about Excise Duty on beer.

I see from your letter that you are to meet the Chancellor of the Exchequer on 7th February. There will be no point in my commenting on what you have written before you have spoken with him, but I have told him that you have been in touch with me about your fears and that I have had a sight of the Memorandum you propose to discuss with him.

Charles Tidbury Esq

CH/EXCHEQUER	
REC.	06 FEB 1984
ADD.	Mr FREEDMAN (C+E)
TO	MST
	Mr Mayor
	Mr Gifford
	Mr Lord.

P.M.
BREV.
SOL.
2/2

The Brewers' Society

42 PORTMAN SQUARE · LONDON W1H 0BB

TELEGRAMS · BREWSOCIETY · LONDON W.1
TELEPHONE · 01-486 4831 (16 LINES)

From the Chairman

31st January, 1984

The Rt. Honble. Mrs. Margaret Thatcher, M.P.,
10 Downing Street,
London SW1.

Dear

Prime Minister,

It was very good to have the opportunity of talking to you, with Sir Derrick Holden-Brown, for a moment last night about the Brewing Industry's fears over the E.E.C. judgment on harmonisation of Duty on beer and wine.

In talking to Michael Jopling and our sponsoring Ministry, M.A.F.F., and in seeing the Chancellor on the 7th February, the points we want to make are on the enclosed memorandum, including a note of a conference with Counsel about the possibility of effecting the changes over two years (two Budgets or thirteen months).

I would like to emphasise that we are in no way asking for feather-bedding of the Brewing Industry but merely that the change should be made as gradually as possible. The Brewing Industry itself is competing and is coping with change in the social and economic environment of the present day. We do hope the Government will be able to deal with the E.E.C. law in a satisfactory way for both the Government, our Industry and the E.E.C.

Last night was a stirring occasion. I was particularly interested in the views expressed on Russia, with which I wholeheartedly agree, having learnt Russian and served in the Government Communications Headquarters, and been to America, when I was a serving soldier in the 1950s.

With all good wishes, and many thanks for your help,

Yours

Sincerely

Charles Tidbury

(C.H. Tidbury)

Enc.

THE BREWERS' SOCIETY

EXCISE DUTY ON BEER

1. The Judgment of the European Court of Justice in Case 170/78 (beer/table wine excise duty) requires the UK Government to make changes in the relative tax burden on beer and table wine.

2. In particular, it requires a tax advantage to be given to wine, one of the fastest growing sectors in the drinks market, and a disadvantage to beer, which is a depressed sector of this market.

3. Even with the exceptional summer weather in 1983 (which is likely to have improved the annual production figure by some 2%) the production of beer in 1983 is unlikely to have exceeded that for 1982 by more than around 1%, and the underlying trend is still downward. Home beer production has in fact been in continuous decline since Spring 1980 and the overall loss now amounts to 12%, equivalent to one of the largest national brewery companies going out of business.

4. In contrast, wine consumption increased substantially in recent years (by 7.4% in the 12 months ended September 1983, or 11.4% in the period April-September 1983 compared to the same period in 1982). Even spirits are now appearing to recover.

5. Even if compliance with the ECJ Judgment was not a factor, the outlook for beer production would be poor. Beer is consumed in volume only by a small section of the population, namely working class males, particularly in heavy industrial areas. This group is among those hardest hit by the recession and old consumption levels are unlikely to be repeated even as employment prospects improve. In effect, implementing the Judgment means discriminating in favour of the better off and harming the less well-off.

6. There is also clear evidence that, as a result of the recession, beer has become extremely price sensitive. The taxation of beer has risen at twice the rate of inflation since the May 1979 election and this has clearly exacerbated the decline in production. Any increase beyond a 1p revalorisation is bound to cause further decline.

7. 96% of all beer consumed in the UK is produced here, providing employment for 63,000 people. Pubs and clubs in most areas of the country depend for their viability on the beer trade - rather than that on wine and other drinks - and provide employment for a further 278,000 people, often in small towns or villages where alternative prospects of employment are poor. Any misjudgment in the handling of the forthcoming harmonisation exercise will result in the export of jobs to Europe.

8. It is against this background that the Society, in concert with the Wine and Spirit Association which represents wine importers, urge that the implementation of the ECJ Judgment should be treated as a damage limitation exercise. In particular, we submit that -

- the ratio between duties on table wine and beer should not go below 3 : 1
- the duty increase on beer should be kept to the minimum and not increased beyond the level of revalorisation
- the burden of maintaining the Chancellor's yield from alcoholic drinks should be shared by all alcoholic drinks other than table wine; in particular, the relative rates of excise duty on beer and spirits should not be changed
- the harmonisation required by this unfortunate Judgment can be achieved without excessive disruption to the drinks market if (following numerous precedents on the implementation of ECJ judgments in both the UK and other EEC Member States) the adjustment of duties was spread over two Budgets, i.e. thirteen months.

THE BREWERS' SOCIETY

Note of Conference with Professor Francis Jacobs,
Fountain Court, Temple, 24th January, 1984

1. Counsel advised that there was no substance in the suggestion that, by virtue of the provisions of the European Communities Act 1972, the UK Government was more vulnerable to actions by private litigants than other EEC governments. There was nothing in the Act which created conditions in this respect in the UK which did not compare with those in other Member States.

2. Counsel also confirmed that there was nothing in principle objectionable in the proposal of "phased compliance" with the Judgement of the Court of Justice in Case 170/78. Counsel said that the Tachographs case (case 128/78 Commission v. United Kingdom ECR 1979 ECR 419) was particularly instructive, since in that case the UK phased its compliance with the Judgement of the Court of Justice over several stages and this did not attract any adverse reaction from the Commission. Counsel thought it inconceivable that the Commission would bring further proceedings against the UK for implementing "phased compliance" with the Court's Judgement. In any event, the time scale of the proceedings under Article 169 would mean that compliance with the Judgement would be implemented by the time the proceedings were heard by the Court of Justice. Counsel therefore thought that, in the event of another Member State contemplating proceedings against the UK under Article 170, the Commission would almost certainly attempt to dissuade the Member State in question from taking such a step.

3. As far as the possibility of private actions by wine importers against HM Customs & Excise was concerned, Counsel confirmed that the entitlement of a wine importer to recover duty paid under legislation which had been declared by the Court to be incompatible with the Treaty, would be a matter of English law and would be governed by the normal rules of restitution. Counsel thought that an importer in such a case would face a number of major difficulties :

- (i) It was almost impossible to state with any certainty the amount of duty which could properly be levied in accordance with the Court's Judgement, since the Judgement left many possibilities open. This problem need not in itself necessarily be fatal to the importer's case, as the English courts would tend to take a robust view of the necessary apportionment.
- (ii) HM Customs & Excise could well argue that an individual's rights under Article 95(2) EEC could be given direct effect and thus be enforced by national courts only if the precise scope of the right in question was defined and the Court's Judgement did not define precisely the rights in question.

(iii) In order to succeed in its claim an importer would need to show that he had suffered loss whereas it could be argued that there was no loss suffered since the importer merely passed the duty levied on to his customers.

(iv) Claims for restitution of past payments were arguably payments made under a mistake of law and thus irrecoverable anyway. Counsel mentioned that HM Customs & Excise might in addition have statutory powers spelling this principle out in relation to excise duty, as the Inland Revenue in relation to income tax, although this was not known at the time of the Conference.

4. HM Customs & Excise would have to be careful about proceeding before the English courts to recover duty levied on imported wine for which the importer had been able to defer payment and which he now refused to pay, raising Community law as a defence. They would be in a weaker position as an English court might reject the claim on the grounds that the Government was relying on its own wrong.

5. Counsel put forward the suggestion that if the UK Government reduced wine duty in the first year to the level that would achieve the 3 : 1 ratio in the second year, on some reasonable assumption about the movement of the beer duty in that second year (on top of the adjustments in the first year), coupled with some general statement in the first budget about the reduction being intended to give effect to the ECJ judgement, this could considerably strengthen the Government's position in relation to wine importers, as they could expect no further reduction in wine duty as a result of the judgement. The Commission could be told privately that the position of beer duty in relation to the reduced wine duty would be reviewed before the following year's budget.

AGT/JAB
30.1.84.

CONFIDENTIAL



Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

FROM: C FREEDMAN

3 February 1984

CHANCELLOR OF THE EXCHEQUER

cc Minister of State
Mr Monger
Mr Griffiths
Mr Lord

BRIEF FOR THE MEETING WITH THE BREWERS' SOCIETY : 7 FEBRUARY 1984

1. The Brewers' Society represents nearly all UK brewers (a few very small independent brewers formed a separate Association some five years ago). Your predecessor had pre-Budget meetings with the Society's current Chairman and its Director in each of the past four years. The Society will again be represented by its Chairman, Mr Charles Tidbury (who is in the second - and presumably last - year of his chairmanship and is also the Chairman of Whitbread & Co plc) and its Director, Major-General Desmond Mangham.

2. The Society sent a submission on 21 December last to the Minister of State, jointly with the Wine and Spirit Association and the National Association of Cider Makers, specifically on the European Court's ruling in the wine/beer case. On 19 January they sent you a fuller Memorandum which incorporates a section on implementing the Judgment.

3. The Society makes 3 main points. First, the implementation of the wine/beer judgment should be phased over two Budgets. Second, the rise in duty on beer should not exceed the rate of inflation. Third, the burden of implementing the Judgment should be shared by all alcoholic drinks.

4. Underlying these propositions is the Society's contention that the beer industry has been badly affected by the recession, which has hit particularly the heavier beer drinking areas in the northern part of the country; and by

Internal circulation: CPS Mr Wilmott
 Mr Knox Mr Norgrove
 Mr Whitmore

CONFIDENTIAL

changing social habits. In their view the beer market is in a precarious state and a decline in 1984-85 is "virtually inevitable". They are also particularly concerned with competition from spirits - which they regard as having been favourably treated for duty purposes since 1979.

The Society's Representations

5. Implementing the wine/beer judgment. A key element in the Society's submissions is a phased implementation of the wine/beer judgment over two Budgets. The Society wants the duty on table wine to be reduced this year to the level which would achieve a 3 : 1 ratio next year, it being assumed that the beer duty will be increased by 1p per pint in the 1984 Budget and by a further 1p per pint in the 1985 Budget. We understand that the Society has Counsel's opinion that such changes, accompanied by a general statement in this year's Budget about the intention to implement the Judgment fully in due course (together with suitable private assurances to the Commission), should preclude successful High Court action by wine importers against the Government. We do not agree, and adhere to the view that it would be very dangerous to attempt overt phasing of implementation unless the Finance Act 1984 overrode specifically the European Communities Act, 1972. You will recall that this was the unanimous view of officials, including legal staff, in all relevant departments. Phasing would also carry with it the danger of "anti-EC" controversy being repeated in debates on the 1985 Finance Bill.

6. The Society argues that the fiscal burden of offsetting the loss to the Chancellor from reducing the duty on table wine should be spread over all drinks. They propose a 3 : 1 wine/beer ratio (partially deferred until the 1985 Budget) with no restructuring of wine duty; and favour general revalorisation except for cider, which they regard as a direct competitor with beer and which should bear a heavier increase. They claim that revalorisation aided by the volume growth in wines, cider and spirits would over 2 years meet the cost of implementation. These representations run counter to those of the Scotch Whisky, Gin and Vodka Associations who favour a restructuring of duties on a per degree of alcohol basis, and argue strongly that implementation of the wine/beer judgment should not be at the expense of spirits.

7. Beer : Other drinks. The Memorandum expresses particular concern about the narrowing of the duty differential between beer and spirits to its current 1 : 2.1 ratio for equal amounts of alcohol. The Society claims that ^{the} relatively large increase in the taxation on beer has given whisky the edge in the market place (paragraphs 11 and 12).

8. There is no "correct" beer/spirits duty ratio, each duty being looked at on its own merits, taking account of revenue needs and the industries' performance. In recent times revenue needs have tended to point towards beer as the biggest potential revenue raiser in the drinks field (revalorisation of 5.3% is estimated to raise some £85 million from beer in 1984-85 compared with £30 million from spirits - where demand is more elastic and the duty represents a much higher proportion of the price).

9. Although the consumption in spirits increased rapidly in the 1960s and 1970s, the whisky industry has gone through a particularly bad spell in recent years, not only at home but also, and more importantly, abroad. From 1950 to 1980, the beer industry was accustomed to steady growth, irrespective of the state of the economy. In 1980, however, production fell by about 3.8% followed by further falls of 4.8% in 1981 and 3.1% in 1982. Production in 1983 will probably be about the same as in 1982 despite the beneficial effects of the hot Summer.

10. The Brewers' Society say that beer consumption currently compares unfavourably with other drinks. It is probably fair to say, however, that only the markets for table wine and cider are reasonably buoyant. Although the Society is able to quote an increase of 10.6% in spirits clearances in the first six months, over the longer period January to November 1983 the increase is only 3.8% (compared with the same period in 1982). What is more, this increase follows a sharp fall in spirits clearances (15% between 1979 and 1982, compared with a fall of 11% in beer production). At this stage it is certainly true to say that there has been an improvement in the home spirits market, and there are some encouraging indications for the future. But it is too soon to determine how far the improvements can be attributed to increased consumption, or to restocking.

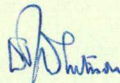
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11. As for beer, whilst the decline in consumption seems to have been halted in 1983, helped by the good summer, there is currently a static market at best. Taxation is, of course, only one determinant of consumption. The recession and changes in consumer preferences have been major factors.

12. Health. The Memorandum refers to growth in alcohol consumption and the expressed concern of the Department of Health and Social Security. It makes the point that consumption of alcohol has been greater than the bulk consumption of alcoholic drinks because of the increased proportions of wine and spirits drunk (paragraph 15). In essence, the importance of health considerations is recognised and taken account of when duty changes are considered. But published policy is that the Government cannot accept "the systematic use of tax rates as a means of regulating consumption".

13. The Society's representatives will not expect you to give any commitments, or to comment in any way which could be interpreted as an indication of Budget intentions.

14. Mr Whitmore and I propose to attend the meeting.


for C FREEDMAN



Handwritten initials 'PWP' in a blue circle.

**NOTE OF A MEETING IN HM TREASURY ON TUESDAY, 7 FEBRUARY,
TO HEAR THE PRE-BUDGET REPRESENTATIONS OF THE BREWERS' SOCIETY**

Those present: Chancellor of the Exchequer
Mr Griffiths
Mr Freedman - C&E
Mr Whitmore - C&E

Brewers' Society
Major-General Mangham
Mr Tidbury

Mr Tidbury said that, because of the implications of the wine/beer European Court judgement, the 1984 Budget represented a grave watershed for the brewing industry. Beer was the only drink still in recession; the modest recovery experienced during 1983 had been entirely on account of the good summer, and without this the trend would still be downward. The Conservative Government had, since 1979, increased the beer duty at twice the rate of inflation - much faster than for any other alcoholic drinks. The joint submission which the Society had made with the Wine and Spirits Association had been intended as a damage limitation exercise; the Society recognised that the Chancellor had no option but to implement the ECJ judgement, but they felt it would be possible to reduce wine duty in two stages to a ratio with beer duty of 3:1 and with the consequential revenue loss shared by all alcoholic drinks. This would enable the Chancellor to limit his increase in beer duty in 1984 to what was required by inflation, an approach which had the support of the Ministry of Agriculture who were the industry's sponsoring department.

2. Mr Tidbury went on to say that he feared that the implementation of the ECJ judgement could, unless very carefully handled, create a number of difficulties and embarrassments for the Government. He was thinking in terms of things like the back-lash in public opinion against the Community, the fact that it would be the lowest paid who suffered most, the foreign exchange implications of increased imports of wine and the fact that most other member states would, in similar circumstances, find ways of implementation that did not threaten such wholesale disruption of the domestic market and



industry. Major-General Mangham recognised that the real problem of their proposed damage limitation exercise was the risk of court proceedings, either before the ECJ or in the UK's domestic Courts. The Society had however taken legal advice on this; the advice was that the Commission would find it extremely difficult to win such a court case. This would be especially true if the Chancellor would be prepared to implement the whole reduction in wine duty this year, but leave some of the catching-up in the beer duty until 1985. He also pointed out that it would be the small, local brewries who would find it most difficult to cope with any major increase in beer duty, especially those based in the areas that had been hardest hit by the recession.

3. The Chancellor agreed that the policy the ECJ judgement required him to pursue was a fiscal nonsense, but the risks of ignoring it were too great to be contemplated. There was also the point to be considered that the other member states had also had judgements given against them over their alcoholic drinks duties, and it was generally in the interest of the UK that these other member states should implement the judgements; we should be in a much better position to exert pressure if we had already done what was required of us. On the question of legal proceedings, he was much more worried about the UK domestic Courts than the ECJ. Mr Freedman said that Customs and Excise had already asked the Government Legal Service and the Law Officers to examine this point. The Chancellor said that he would not reach a final decision without getting the Law Officers' advice. He was grateful for the understanding which the Brewers Society had shown with the problems he faced. He also asked the Society to confirm that they were no longer insisting on beer duty increases in multiples of whole pence. Major-General Mangham said that this was indeed the case.

JS

MISS J C SIMPSON

9 February 1984

Circulation

Those present
PS/MST
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Mr Lord
PS/C&E

The Brewers' Society

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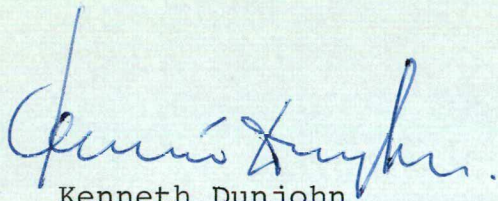
7 February 1984

Mr John Page
Chief Press Officer
The Treasury
Parliament Street
London SW1

Dear Mr Page

As arranged with Mr Philip Boseley yesterday, I am enclosing an advance copy of the release we are issuing in connection with the visit by the Chairman of the Society to the Chancellor.

Yours sincerely



Kenneth Dunjohn
Head of Public Relations

enc.

Brewers' Society News Release

42 Portman Square, London W1H 0BB

Telephone: 01-486 4831 Telex number: 261946

EMBARGO: FOR RELEASE NOT BEFORE 15.30 HOURS TUESDAY 7 FEBRUARY 1984

(Please check that meeting does take place)

7 February 1984

BEER TAX RISE WOULD BE UNFAIR

- AND HIT LOWEST PAID AND UNEMPLOYED WORST

A brewers' delegation called on the Chancellor of the Exchequer, Mr Nigel Lawson, MP, today (Tuesday, 7 February 1984) - and warned of the serious economic and social consequences if beer Duty is raised substantially as a result of the European Court's ruling on beer/wine Duty ratios.

The brewers said heavy-handed action on beer Duty in the next Budget will:

- * reduce the sales of beer which has had a 12% downturn in 5 years, largely due to tax increases which have been at twice the rate of inflation since 1979.
- * put a large number of pubs and clubs, already experiencing difficulties because of the trade downturn, at very great risk, with the probability that many could shut.
- * have its worst effects in areas of heavy industry where beer is most popular and where unemployment is highest and where pubs and clubs have an essential social function in providing at least some relief from dismal economic conditions.
- * price beer out of the reach of many of beer's main customers - those on lowest wages and in the lower socio-economic categories, including the unemployed.

Cont/...

- * give a boost to drinks, such as wine, which are extensively bought by better-off consumers, in the higher socio-economic categories.
- * reduce the purchase by brewers of the raw materials used in brewing and which are very largely grown by British farmers - barley for malting, other grains, and hops.
- * give benefit to wine growers who receive some £300 million in CAP subsidies from the Community and who have wine "lakes" to dispose of, but adversely affect UK barley growers who have no comparable subsidies.
- * reduce investment by brewery companies, especially capital spending in pubs which provides a huge amount of work for small, local contractors.
- * add significantly to the retail price index.
- * have serious consequences for brewery companies, and their employees, most especially the 70 or so smaller companies for whom beer is by far the greater part of their trade.
- * achieve no complementary benefit to UK beer sales in other EEC countries.
- * have an impact on public attitudes towards the European Community - beer being the drink of over 30 million UK consumers.

The brewers' delegation was headed by Mr Charles Tidbury, Chairman of The Brewers' Society, and Major-General Desmond Mangham, Director of the Society.

Cont/...

They told the Chancellor that they recognised that the judgement of the European Court of Justice (July 1983) which held that the UK discriminated against light wine and favoured beer in its Duty policies, created difficult circumstances. They urged, however, that in responding to that judgement he take account of the complex consequences and phase any changes over more than one Budget.

The brewers maintain that an adjustment to beer Duty of about 1p per pint in the next Budget, with compensating changes to other drinks, should make it entirely possible to satisfy the Court. They pointed out that the EEC Commissioners already have general matters affecting Duty harmonisation under debate, including at the European Parliament, and that it would be unreasonable and damaging to proceed with unnecessary speed as a result of the Court's ruling.

A Brewers' Society spokesman said: "The 30 million beer drinkers comprise the largest silent majority in the UK. They enjoy a few pints a week in pubs and clubs all over the country. And they already have to pay one of the highest beer taxes in the world - some 15p Duty and 8p VAT, a total of 23p a pint. Any further heavy increase in that tax would be unfair and unjust. Beer drinkers should not be called on to pay penalties to pacify the already highly subsidised wine growers of Europe who have "lakes" of Euro-plonk they cannot sell. If the Chancellor singles out beer, he may well cripple many small businesses, like pubs, and cause the closure of many clubs, mostly working mens clubs. The pub, in particular, has a traditional and potent social role. This could be seriously damaged if the Chancellor gets it wrong! Also, jobs in the UK pub and club trade, in breweries, in the beer trade's suppliers, and in farming will be in jeopardy - whereas jobs abroad in the wine growing and blending businesses will benefit."

-ends-

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THE SCOTCH WHISKY ASSOCIATION

SCOTCH AND TAX

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January 1984



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SUMMARY

- * In the UK, Scotch Whisky is taxed much more heavily than beer and imported wines: the excise duty paid per litre of pure alcohol is £15.19 for Scotch Whisky compared with £9.42 for imported table wine, £8.58 for vermouth, £7.20 for beer, and around £1.49 for cider.
- * All alcoholic beverages are in competition to some extent in the market place and discriminatory levels of taxation distort competition.
- * Given the existing base, the inflation proofing of existing duties simply magnifies the present discrimination.
- * The present scale of duties which discriminates against spirits cannot be justified on health or any other grounds.
- * THE ONLY FAIR AND LOGICAL WAY IN WHICH TO DEAL WITH THE DIVERGENT TAXATION PRACTICES IN THE UK, AND THE EUROPEAN COMMUNITY AS A WHOLE, IS TO BASE THE TAX SYSTEM ON THE ALCOHOL CONTENT OF EACH ALCOHOLIC BEVERAGE.
- * It is accepted that a wholesale change to levying excise on a per unit of alcohol basis could not be introduced overnight. Accordingly, a two-tier tax scheme is presented which allows for progressive movement towards a fairer system.
- * This system will not result in revenue loss to the Exchequer. Indeed, it offers greater potential for increasing revenue.
- * It could be easily and fairly adjusted to keep pace with inflation by index-linking. However, index-linking should begin from an equitable base.
- * The particular proposal we would wish to commend to the Chancellor at this moment is Case D illustrated on p.14.

1.0 INTRODUCTION

1.1 Tax discrimination against Scotch Whisky can best be illustrated by the amount of duty on normal measures of different drinks containing approximately the same amount of alcohol.

	<u>Duty per Measure</u>	<u>As % of Beer</u>
Scotch Whisky (1 oz)	17.25p	228
Imported Table Wine (3.5 oz)	11.24p	148
Vermouth (2 oz)	8.29p	110
Beer (half pint)	7.57p	100

1.2 The duty paid on a measure of Scotch is more than double that paid on a quantity of beer which contains approximately the same amount of alcohol. This discrimination is exacerbated by the imposition of VAT on the excise duty paid.

1.3 A more accurate comparison is given when excise duty is expressed in terms of duty per litre of pure alcohol.

	£
Scotch Whisky	15.19
Imported Table Wine	9.42
Vermouth	8.58
Beer	7.20
Cider	1.49

1.4 Excise duty applies only to domestic consumption. Eighty-five percent of Scotch Whisky sales are exported: a remarkably high level of exports by any standard. It has been argued that, as the UK accounts for only 15% of sales, the domestic tax structure is relatively unimportant in determining the fortunes of the industry.

1.5 On the contrary, the UK market is vitally important:

* it is the industry's second largest market after the USA (27% of sales in 1982 compared with 15% in the UK);

- * a substantial and strong home market reflecting preference for the domestic product has an impact on potential overseas customers and helps export promotion;
- * if the system of excise duty were more equitable, reflecting the alcohol content of beer, wine and spirits, whisky would be more price competitive with imported table wine and fortified wines, with a beneficial import substitution effect; and,
- * the tax treatment of whisky in the home market creates a weak negotiating position in respect of EEC tax harmonisation proposals.

1.6 This report examines the case for a phased change in the structure of excise duty to reflect the alcohol content of different drinks.

2.0 THE DUTY ON SCOTCH

2.1 The first duty on spirits, imposed in the 17th Century, was minimal - a mere 2d per gallon irrespective of strength and far less than the duty on beer. Problems of drunkenness in the late 17th Century caused by enormous consumption of gin soon led to a change, with Parliament imposing a tax of 20 shillings per gallon before the end of the century.

2.2 There have been a number of decisive budgets in the history of whisky taxation. The tax on whisky was more than doubled in 1918, then raised by 66% in 1919 and by 45% in 1920. There was no increase in the duty on wine, which had not been increased since 1899. In 1919, the Chancellor stated that, "The only reason why I do not (raise the duty) is because people do not buy wine"!

2.3 In more recent years, there has been a trend towards the indexation of indirect taxes whereby upward adjustments are made to specific duties to counter the effects of inflation. However, the effect of raising duties on a percentage basis across the board can gravely exacerbate the distortion of competition caused by discriminatory duties. At the last budget the tax on Scotch Whisky was increased proportionately slightly less than the tax on other alcoholic drinks. In real terms reckoned on alcohol content, however, the tax on Scotch Whisky was increased more than that on other alcoholic drinks. The tax on a pint of beer increased by 0.8p. Since a bottle of Scotch Whisky contains approximately 14 times as much

alcohol, an increase of about 11p might have been expected. The increase was 25p per bottle of Scotch.

2.4 The practical effect of duty discrimination depends on the proportion of price represented by duty. A tax of 5 pence a bottle on wine and 50 pence a bottle on whisky would distort competition very much less than a tax of £1 a bottle on wine and £10 a bottle on whisky, despite the fact that the "percentage" differential is identical.

2.5 In considering the case against existing discriminatory treatment of spirits in comparison to other alcoholic beverages two issues are relevant:

- * the characteristics of the market for alcoholic beverages; and,
- * evidence on alcohol abuse.

3.0 THE MARKET FOR ALCOHOLIC BEVERAGES

3.1 There is considerable evidence to support the EEC Commission's view that:

"All alcoholic drinks are more or less in competition."

(EEC Commission: COM (79) 261 final)

As an example, in Belgium, the tax on spirits was increased by 85% between 1977 and 1981, with no corresponding increase on fortified wines. Sales of fortified wines increased by 50% and spirits' share of the alcoholic beverage market fell.

3.2 More general market research supports the view of competition between all alcoholic beverages. The market research evidence summarised below is drawn from an extensive NOP survey of almost 2,000 consumers. It indicates that whisky must compete not only with other spirits but with drinks such as sherry, vermouth, table wine and beer.

Occasions for
Consumption of
Alcoholic Beverages

Preferred Drink (%)

	Preferred Drink (%)					No Reply
	Whisky & Sherry	Vermouth	Wine	Beer	Other	
In the Pub	9	12	4	43	15	17
At a Party	12	18	12	31	20	7
Theatre/Cinema	11	15	9	25	19	21
Before a Meal	5	25	12	15	9	34
After a Meal	7	7	11	14	27	34

Source: NOP Drinks Survey

- 3.3 The table refers to questions asking consumers which drink they preferred on different occasions. It shows clearly the competition between, for example, vermouth and sherry and whisky. 9% of the sample preferred whisky when in a pub while 12% preferred vermouth or sherry. 12% preferred whisky when at a party, compared with 18% preferring vermouth or sherry.
- 3.4 Further evidence is provided by consumer surveys which examined the alcohol consumption patterns of those drinking more or less Scotch Whisky than one year ago. Appendix 1 presents survey results which illustrate the high degree of substitution between whisky and other alcoholic beverages.
- 3.5 The evidence demonstrates that Scotch Whisky is in competition in the market place with a wide variety of other alcoholic beverages. The higher rate of duty on Scotch Whisky must adversely affect its share of the domestic market.
- 4.0 EVIDENCE ON ALCOHOLISM
- 4.1 It has been argued that there are social reasons for imposing a relatively higher rate of taxation on beverages with a higher alcoholic content. This implies that the choice of spirits as a drink is more likely to lead to alcohol abuse than is the consumption of other alcoholic beverages.

- 4.2 Available medical evidence, however, indicates that spirits are no more damaging to health than any other drinks. It is the excessive drinking of alcohol, whatever its form, which endangers health. The Central Policy Review Staff report on alcoholism concluded that:

"No one drink is so much more dangerous than another as to justify punitive taxation being imposed upon it, leaving other drinks relatively untouched. Those countries which have tried differential taxation of this kind have found that in the long run total consumption adjusts so that broadly similar amounts of alcohol will be consumed in other ways."

(Alcoholic Policies: Report by the Central Policy Review Staff, 1979. Unpublished.)

Yet, the present structure of excise duty in the UK is based on differential, discriminatory taxation against spirits.

- 4.3 Further evidence on the health implications of different alcoholic drinks is contained in Appendix 2.

5.0 THE INDUSTRY

- 5.1 It has been represented that the market difficulties faced by the industry have not been due to the heavy taxation born by Scotch, as evidenced by the fact that over the last 20 years the real tax take has fallen by some one-third. However, the industry has faced an increasingly competitive market situation and the squeeze imposed on its profit margins is demonstrated by the steeper decline of 44% in the real price of a bottle of whisky. Over this period the tax content of the price of Scotch has risen from 65% to 79%. This compares to a current tax content on beer of 38%.

Employment

- 5.2 Employment in the industry, which has never been overmanned, has fallen by almost 6,000 since 1980: almost one quarter from 26,000 in 1980 to an estimated 20,200 on 1st January 1983. This covers only direct job losses. Industry estimates of indirect losses in related activities increase the total job losses to over 7,000 since 1980. Since January 1983, further major redundancies have been announced. In total, it is

estimated that direct job losses in 1983 were around 2,000. Taking indirect job losses into account, the whisky industry is now providing approximately 9,000 fewer jobs than in 1980.

5.3 Job losses have been concentrated in areas of high unemployment or, as important, in rural areas where the whisky industry is the main provider of employment. Some of the small villages on Islay, for example, were built around distilleries on which they are exclusively dependent. The recession in the whisky industry has left these villages with virtually no employment opportunities. Before 1980, 160 people on Islay were directly employed in the industry: the number has now fallen to 70. A major blow to a small island community.

5.4 The Community wine industry is also suffering from a drop in demand. However, the treatment of that industry is in stark contrast to that meted out to Scotch Whisky. For the latter, a decline in demand results in closure, lay-offs and redundancies, not to mention duty increases of some 45% in recent years. Over production in the wine industry is subsidised by guaranteed incomes for farmers and aids for distillation. In 1982, over £200 million was given in subsidies to the wine community.

5.5 Further details about the Scotch Whisky industry are given in Appendix 3.

6.0 A NEW STRUCTURE OF EXCISE DUTIES

6.1 The recent European Court of Justice (ECJ) beer-wine judgement requires fundamental tax changes and therefore provides an opportunity for the reconsideration of the basis on which excise duty is levied in the UK. Other factors also indicate that this would be timely:

* Over the past four years, despite successive increases in excise duty on drink, the revenue raised in real terms has fallen.

* With falling sales, major cut-backs in production and consequent under-utilisation of capacity and redundancies, the Scotch Whisky industry has faced considerable difficulties over the past few years.

- * Domestic whisky consumption has fallen to the advantage of imported wines, with resulting detrimental effects on the balance of payments, employment and tax take.
- * Greater account is now being taken at the EEC level of relative alcohol strengths. The recent 'beer and wine' case took into account a ratio of excise duty on wine to beer in relation to their alcoholic strengths, and past EEC tax harmonisation proposals have also sought to establish ratios for taxation between certain alcoholic drinks on the basis of alcohol content.

6.2 The 'beer and wine' case and the most recent harmonisation proposals were characterised by a desire to set the ratio of beer and wine excise duties in relation to alcoholic content. It does not extend this approach to the relationship with spirits, thereby reflecting the interests of the influential wine producing members of the Community. In a communication from the Commission accompanying a recent draft directive it is stated that:

"the Community's policy must be to secure some reduction in the overall level of taxes levied on wine, in order to improve outlets for wine production."

(Quoted in Hansard, 3 December 1980, p592.)

6.3 In the remainder of this section, an approach is outlined which would satisfy the European Court of Justice, allow progressive movement towards taxation on a per unit of alcohol basis and, in all probability, provide greater opportunity for increasing total tax take from excise duty.

Basic Considerations

6.4 Price Elasticities: while various estimates exist for own and cross-price elasticities for different alcoholic drinks, it is clear that spirits are more price elastic than either wines or beers. Available estimated price elasticities are shown below.

(i) Cambridge Model

(a) Wines and Spirits

- own price 0.75
- cross price 0.12 on change in price of beer

(b) Beer

- own price low
- cross price 0.30 on change in price of wines and spirits

(ii) Duffy (1980)

Own price elasticities

- Spirits 0.87 to 0.99
- Wines 0.65 to 0.87
- Beer insignificantly different from zero

- 6.5 Such elasticity estimates for spirits are higher than those which appear to be implicit in the Treasury model: which explains, in part, the failure to reach published Budget estimates.
- 6.6 Given the lower price elasticities for beer and wine, it is demonstrably the case that to achieve given tax targets with minimum price adjustments, the direction of tax adjustment should be towards beer, then wine, with spirits as a last resort. The greater price responsiveness of spirit demand means that the net revenue gain from increasing the tax on, and therefore price of spirits, will be small because of the decline in consumption.
- 6.7 The European Court of Justice (ECJ): the intention of the ECJ in its judgment in case 170/78 was to bring to an end "distortion of competition" between wine and beer caused by "inequitable" excise rates. The Court held that the proper basis for determining "fair" rates was comparison of the lightest wines (9% vol.) with the most widely consumed beer (3.7% vol.).
- 6.8 Beer - like spirits - is currently taxed in the UK according to alcoholic strength. Wines up to 15% vol. are, by contrast, taxed on volume: a bottle of wine at 15% vol. bears the same excise duty as a bottle at 9% vol., despite the fact that it contains 66% more alcohol.

6.9 The method of comparison required by the Court would therefore, when applied to the present tax structure, mean that alcohol in the form of wine at 12% vol. to 15% vol. would bear significantly less tax than alcohol in the form of beer. This is not required by the judgment: it would be the fortuitous result of the present UK excise structure.

6.10 The UK can comply with the judgement by reducing the excise on wine (by some 30p per bottle) or by increasing the excise on beer (by some 9p per pint) or by a combination of both. If the excise on wine is reduced, there would be an increase in the tax advantage which it already enjoys over Scotch Whisky.

6.11 The object of the judgement was to remove distortion of competition between beer and wine, in particular the light refreshing wines at 9% vol. There is no requirement of, and no justification for, compliance in such a way that a major consequence is to increase the distortion of competition between wine and Scotch Whisky.

A New Structure

6.12 It therefore seems appropriate (since major changes are in any case inevitable) to consider a fundamentally new excise structure rather than mere changes to rates under the present structure, which was adopted when social conditions, drinking habits, and income distribution were all markedly different from today.

6.13 A structure which would combine maximisation of revenue with minimum distortion of competition, and above all a minimum of unrequired tax advantage to stronger wines over home-produced beer and spirits, would be a two tier system under which all alcoholic beverages (beer, wine and spirits) are taxed at a "standard" rate per degree of alcohol up to a threshold in the region of 10% vol. to 15% vol. and at a "higher" rate per degree above that threshold.

6.14 Such a system offers a number of advantages:

- (a) It gives flexibility by allowing changes in the threshold, in the rates, and in the differential between the rates.

- (b) Taxation of wine on the basis of alcoholic strength (as is already the case for beer and spirits) would permit the required equalisation of beer with wine at 9% vol. without giving greater - unrequired - tax benefit to wine at 15% vol., or to imported fortified wines such as vermouth at 17% vol. and 18% vol.
- (c) A two tier structure can (depending on the threshold) avoid the disruption that would inevitably be caused by a change from the historic structure (stemming from outdated social perceptions) to a single rate for all categories of alcoholic drink. (There is perhaps one exception to this: the tax advantages currently enjoyed by cider are so great that a transition period for it might be desirable.)
- (d) It would permit progress towards equal taxation per unit of alcohol for all alcoholic drinks.
- (e) It would enhance UK ability to influence proposals for EEC harmonisation in a way beneficial to UK exports to other Member States, where wine is currently heavily tax-privileged compared with both beer and spirits.

6.15 Choice of 10% vol. as the threshold for the "higher" rate of excise would have the advantage of most effectively limiting the benefit to be given to imported wines compared with domestic beer and spirits to the level required by the judgement. It avoids fortuitous extra benefits to higher strength wines. It would lead to very substantial increases for fortified wines which might require a transition period.

6.16 A threshold of 15% vol. would avoid this problem but would not limit so effectively the "unrequired" tax benefit to wines of 13% vol. to 15% vol. It does, however, have the advantage that there is fairly clear demarcation between wines, most of which do not exceed 14% or 14.5% vol. and aperitifs which start at around 17%.

6.17 The potential consequences of such a two tier tax system are examined below. The analysis is simplified by dividing wines into three representative categories as follows:

- (i) those containing 10.5% alcohol by volume;
- (ii) those containing 12.5% alcohol by volume; and,
- (iii) those containing 17% alcohol by volume.

(Note: All reference to wine and fortified wine is to imported wine and fortified wine and not to "made wine".)

6.18 The fundamental questions are:

- * given a specified basic rate of taxation, what is the required higher tax rate necessary to achieve a given total excise tax target?
- * what are the implications of these tax rates for the prices of various alcoholic beverages, and for sales volumes?

6.19 The answers to these questions clearly depend on a number of factors. These are discussed briefly below.

- (a) The current position - The consequences of any change in the system of excise taxation must be examined in the light of "where we are now", in terms of prices, sales volumes, tax take, etc. The assumptions and data used in this analysis are detailed in Appendix 4.
- (b) Sensitivity - The extent to which the position will change as a result of tax alterations depends critically on how sensitive sales volumes are to changes in prices, i.e. price elasticities. The following analysis allows not only for own price elasticity effects (the sensitivity of the volume of sales of a given beverage to changes in its own price), but also for cross price elasticity influences (the sensitivity of demand for a beverage to changes in the prices of other drinks). Every attempt has been made to ensure that the most recent, and most reliable elasticity figures are used. Again, these are detailed in Appendix 4.
- (c) The Basic Rate of Tax - This is clearly one of the policy variables involved. Its magnitude will critically influence the price of alcoholic beverages whose alcohol content lies below the threshold at which the higher tax rate becomes operative (beer and lighter wines). In selecting the range, two main factors have been considered. First, the ECJ requires that beer taxes be increased relative to wine taxes. Second, the feasibility of implementation requires that the

resulting increase in the price of beer should be "realistic". As a result, this exercise is confined to an examination of basic tax rates which would result in the price of beer rising by between 1.5 and 3.5 pence per pint.

- (d) The Threshold - In view of the discussion in paragraph 6.16, this analysis assumes a threshold alcohol content of 15% by volume.
- (e) The Tax Target - For the purposes of this exercise, it is recognised that the relevant target will be in excess of the current tax take. At the same time, however, it should be recognised that there are severe practical limitations on the extent to which excise tax from alcohol can be increased in real terms. The under-achievement of tax targets over recent years is strong evidence for this. As a consequence, it is suggested that a target for 1984/85 which is both reasonable and realistic is £4,000 millions in excise tax.

6.20 As the requirement of the ECJ judgement is an increase in the excise tax on beer relative to wines, the analysis now proceeds as follows. The initial assumption is an increase in the final price of beer, the range shown being 1.5p to 3.5p a pint, with the further assumption that all price changes are due to tax changes without any change in profit margins (the excise tax implication is obtained by dividing the change in final price by 1.15 to allow for the additional tax leverage exerted by VAT). Given any change in the price of beer (and the implicit new excise tax rate) the first table shows the change in final prices for wine and spirits which will produce the excise tax target set at £4,000 million. In making these calculations, allowance has been made for estimated own and cross price elasticities and the predicted changes in volume of UK sales is shown in the subsequent table.

6.21 The changes in the price of a pint of beer considered are:

- Case A - the current position;
- Case B - a 1.5p increase;
- Case C - a 2.0p increase;
- Case D - a 2.5p increase;
- Case E - a 3.0p increase;
- Case F - a 3.5p increase.

Required Changes in the Final Prices of
Alcoholic Beverages¹
(£4,000 million Excise Tax Target)

	Beer (pint)	17% (bottle)	Wine 12.5% (bottle)	10.5% (bottle)	Spirits (bottle)
	(Pence)				
Case A	-	-	-	-	-
Case B	1.50	20.23	-8.93	-22.06	107.95
Case C	2.00	19.18	-6.75	-20.22	60.18
Case D	2.50	18.30	-4.56	-18.38	16.09
Case E	3.00	17.68	-2.37	-16.55	-24.61
Case F	3.50	17.28	-0.18	-14.71	-62.21

¹ The detailed calculations underlying this table are presented in Appendix 5.

Estimated % Changes in Annual Sales Volumes
of Alcoholic Beverages¹

	Beer	17%	12.5%	Wine 10.5%	Spirits
Case A	-	-	-	-	-
Case B	+1	-19	+1	+17	-13
Case C	0	-17	0	+16	-8
Case D	-2	-16	0	+15	-2
Case E	-3	-14	-1	+14	+4
Case F	-4	-13	-1	+13	+9

¹ The detailed calculations underlying this table are presented in Appendix 5.

6.22 Some important general conclusions emerge:

- * an increase in the excise tax for beer which results in an increase in its final price of 2p or less, will require substantial reductions in the excise tax on lighter wines to meet the ECJ judgement and very substantial increases in the excise tax on spirits to meet a tax target of

£4,000 million; the consequence would be large volume adjustments, including substantial reductions in the UK consumption of home-produced spirits such as Scotch and gin.

- * an outcome such as that described above would have adverse income, employment and balance of payments effects for the UK, without any compensating excise tax benefits.
- * an increase in the excise tax for beer which results in an increase in its final price of 2.5p or more, will evidently imply smaller reductions in lighter wine prices and smaller increases in spirit prices; the consequence would be smaller volume adjustments because the higher tax burden falls on those beverages with relatively low price sensitivity.

6.23 Given these results, it is reasonable to seek to establish how best to comply with the ECJ judgement, while minimising the immediate price and sales volume implications and meeting the excise tax target. It is suggested that, of the options considered, Case D represents the best alternative. Whilst meeting both the ECJ requirements and the stated tax target, the necessary price adjustments are kept to realistic levels. At the same time, while there is clearly some substitution between categories of wine, sales volumes of spirits and beer are not markedly affected.

6.24 It should be noted that the implied changes in excise duty in Case D are approximately as follows:

Beer	-	+2p per pint
Wine 17%	-	+16p per bottle
Wine 12.5%	-	-4p per bottle
Wine 10.5%	-	-16p per bottle
Spirits	-	+14p per bottle

The specific tax rates implicit in this case are a basic rate of 8.59p per centilitre of alcohol and a higher rate of 19.91p per centilitre of alcohol.

6.25 It is worth contrasting the results above with the price implications of a system involving equal taxation of beverages per unit alcohol content (i.e. a system without a higher tax rate, or threshold). Using the same assumptions as before, the price changes which would be necessary to meet an excise target of £4,000 millions are as follows:

Beer	-	+5.45p
Wine 17%	-	+17.62p
Wine 12.5%	-	+8.35p
Wine 10.5%	-	-7.54p
Spirits	-	-183.88p

Clearly, while the proposed regime (Case D) represents a potential step towards a more equitable tax system, the existence of a two-tier system of taxation results in prices which are still distinctly disadvantageous to spirits.

6.26 The ECJ judgement requires the UK Government to act. The Government's response should not be based simply on adjusting rates under the existing system to the further competitive disadvantage of the Scotch Whisky industry. The cases described show that a system could be devised with regard to feasible increases in beer and fortified wine prices which would:

- * satisfy the European Court of Justice judgement;
- * provide more equitable treatment for different alcoholic drinks; and,
- * provide scope for increasing the total tax take from excise duties.

Appendix 1

SUBSTITUTION BETWEEN ALCOHOLIC BEVERAGES

A major consumer survey, undertaken in early 1983, demonstrates strong competition in the market between drinks. In particular, it shows a high degree of substitution between Scotch Whisky and all other alcoholic drinks. This being so, the relative price of Scotch Whisky must strongly affect consumption.

The majority of those who claimed to be drinking less Scotch Whisky than a year ago, also claimed to be drinking more of some other alcoholic beverage. This is shown in Table 1 on the following page.

Table 2 shows that, amongst those who claimed to be drinking more Scotch Whisky, a significant proportion also claimed to be drinking less of some other alcoholic beverage. Again, the extent of competition and substitution is apparent.

Table 1.1

Substitutes for Scotch Whisky

(Base: People drinking less Scotch Whisky than one year ago)

	UK	Belgium	Denmark	France	Germany	Italy	Netherlands
	%	%	%	%	%	%	%
Drinking more of other drinks	50	76	56	64	68	65	85
Within which drinking more ¹ :							
Beers	17	24	23	9	20	20	32
Wines	11	22	21	12	24	20	30
Spirits & Liqueurs	20	20	16	21	22	17	18
Other Alcoholic Drinks } Non Alcoholic Drinks }	12	16 14	11 5	24 13	6 26	6 15	10 24
<u>Not</u> drinking more of other drinks	50	24	44	36	32	35	15

¹ Multiple response possible

Source: DCL



Table 1.2

Scotch Whisky as a Substitute

(Base: People drinking more Scotch Whisky than one year ago)

	UK	Belgium	Denmark	France	Germany	Italy	Netherlands
		%	%	%	%	%	%
Drinking less of other drinks	52	47	51	48	49	63	43
Within which drinking less ¹ :							
Beers	28	25	31	8	20	6	25
Wines	2	1	6	4	7	4	5
Spirits & Liqueurs	18	8	15	19	51	42	25
Other Alcoholic Drink	10	12	15	26	4	7	6
Non Alcoholic Drinks							
<u>Not drinking less of other drinks</u>	48	53	49	52	51	37	57

¹ Multiple response possible

Source: DCL



Appendix 2

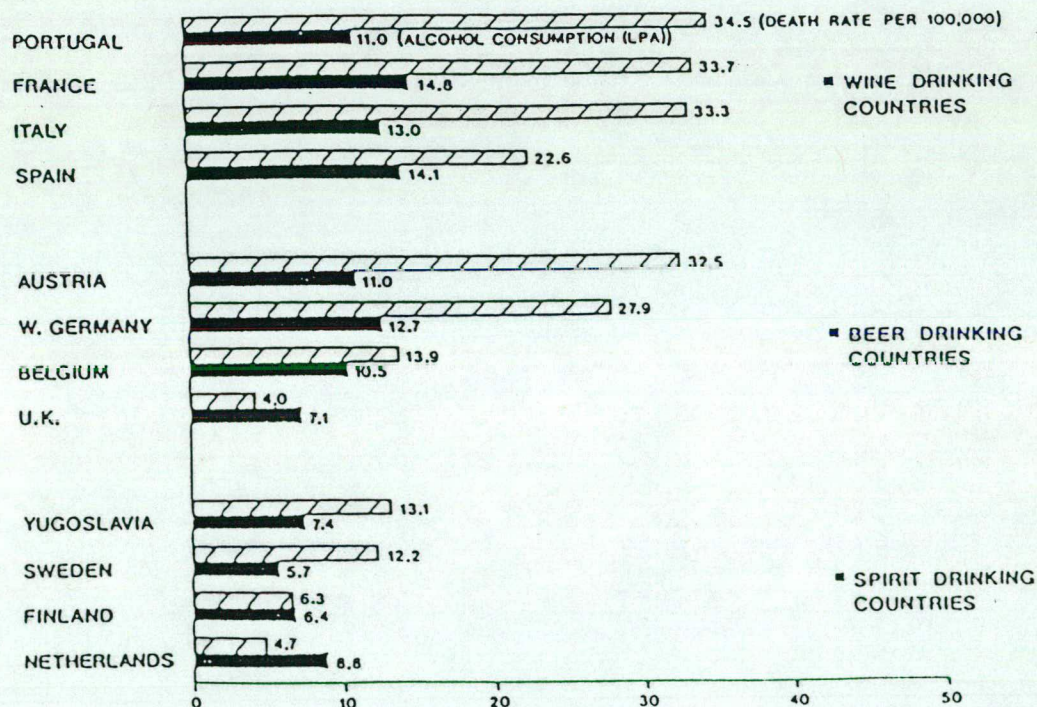
HEALTH ASPECTS OF ALCOHOL CONSUMPTION

As far as health is concerned, Figure 2.1 illustrates that it is in countries where the principal alcoholic drink consumed is wine that the highest cirrhosis mortality rates are found.

The critical aspect is the total quantity of alcohol consumed, rather than the type of alcoholic beverage in which it is consumed. It might be argued that the availability of high strength spirits would encourage faster consumption of alcohol and, consequently, the consumption of a greater total of alcohol. However, examination of the per capita consumption of alcohol (in all forms) on an international basis, again referring to Figure 2.1, shows that the total per capita consumption is greatest in wine producing countries, second greatest in beer producing countries and least in spirit producing countries.

Figure 2.1

Liver Cirrhosis Deaths (1975) and Per Capita Alcohol Consumption (1980)



Source: World Health Organisation.

That strong spirits do not encourage greater consumption of alcohol than wine or beer becomes less surprising when the measures used for the respective drinks in bars and restaurants are examined. Half a pint of beer, a single measure of spirits, a glass of wine and a glass of fortified wine each contain approximately the same amount of alcohol.

Indeed, there is widespread public misconception of the equivalent strength of spirits. Recent survey research on drinking and driving revealed that only one in ten respondents realised that half a pint of beer is equivalent in alcohol content to a single measure of whisky. The most common perception was one pint (i.e. twice as much as the correct answer) and the average response was one and a half pints (i.e. three times the correct answer). (J. Samuels and B. Lee, "The Evaluation of the Drink and Drive Campaign, 1976/77".) The lower taxation of wine and beer compared with spirits may be a significant factor in creating this potentially dangerous misconception.

Moreover, spirits are seldom drunk undiluted. If whisky is mixed with an equal amount of water or a non alcoholic drink, the alcoholic strength falls to approximately 20%, or roughly equivalent to a fortified wine such as vermouth. Diluted two to one and the alcoholic strength drops to around 13%, or equivalent to a table wine. That is, whisky drinkers are consuming a beverage generally equivalent in alcohol content to vermouth or wine.

The European Commission in commenting upon differential levels of tax on spirituous beverages noted that (COM (80) 139):

"These differentiations in tax rates are usually justified on social and health grounds. It is, however, striking that they generally result in preferential treatment of domestic production."

In wine-producing Germany and Italy there is no excise duty on wine. In the UK, excise duty on Scotch Whisky does not provide preferential treatment for the domestic spirit. On the contrary, judged on the basis of excise duty per unit of alcohol, it discriminates in favour of imported fortified and table wines.

Appendix 3

THE SCOTCH WHISKY INDUSTRY

Sales and Production (by Quantity)

Whisky is normally matured for 4 to 6 years so that current releases are drawn from stocks laid down in the 1970s. Whisky sales increased at a rate of more than 10% per annum in the early 1970's and the industry laid down stocks in anticipation of continued growth at that rate. Domestic sales have fallen each year since 1979 with sales in 1982 15% lower than 1979. Exports recovered slightly in 1982 but were still down 8% on peak 1978 sales. Moreover, up to November 1983, exports were down 9% on the previous year. The effect on production has been even more dramatic with production in 1982 the lowest for 20 years.

Value of Exports

Scotch Whisky is a major export industry with sales of over £871 million in 1982. Exports per employee were over £40,000 compared with £365 per employee in the UK beer industry and an average for all manufacturing industry of only £5,000 per employee.

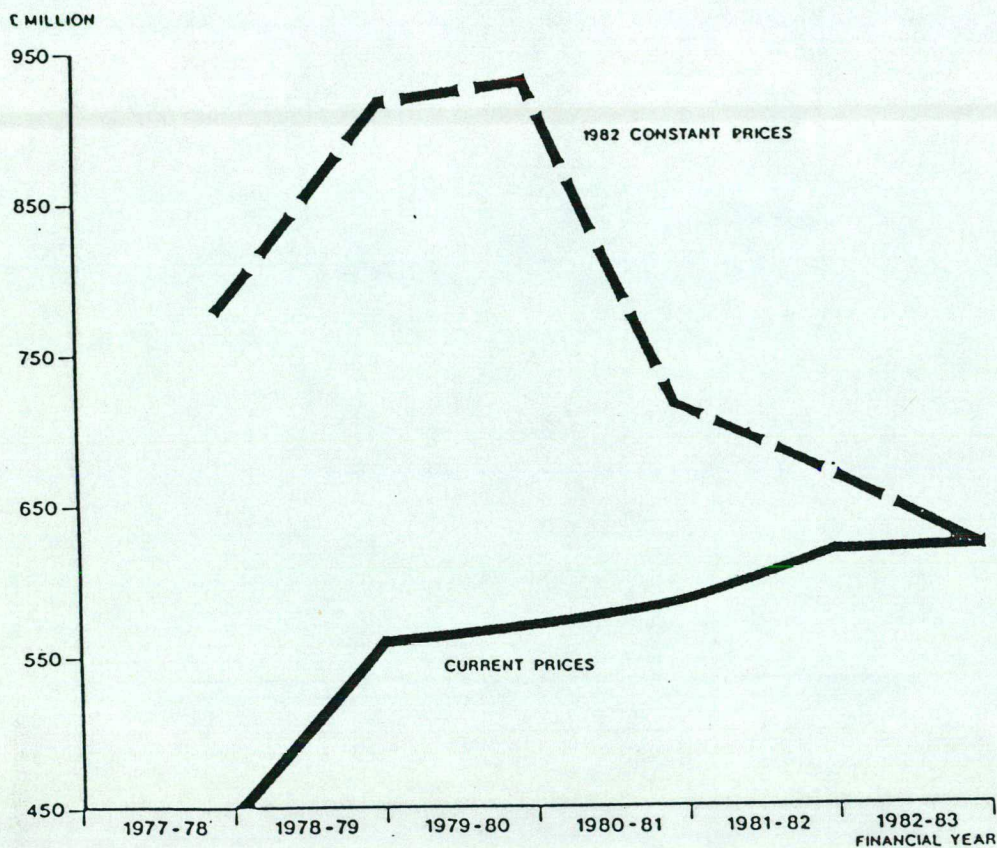
Tax Revenue

The industry contributes almost 20% of excise duty raised from alcoholic drinks, or about 3% of all Customs and Excise revenue. Excise duty on Scotch Whisky raised £624 million in the financial year 1982/83. However, with slow growth rates and then falling sales, there has been a fall in the real value to the Exchequer of revenue from excise duty on Scotch Whisky, as illustrated in Figure 3.1.

Significant as it is, revenue from excise duty understates tax take from the sale of Scotch Whisky. In addition, VAT is levied on the final selling price. Adding estimated VAT of £104 million to excise duty of £624 million in 1982/83 gives a total tax take of some £730 million.

Figure 3.1

Net Receipts from Excise Duty on Scotch Whisky
(£ million)



Source: Customs & Excise

Capacity Utilisation

There is also widespread underutilisation of production capacity in the industry. Between January 1982 and January 1983, the average closure period for Scotland's distilleries was 15 weeks. In January 1983, Scotch Whisky distilleries were operating on average at only 38% of capacity and blending and bottling plants at 68% of capacity. At the present time some 15 distilleries are completely closed down.

Appendix 4

TWO TIER STRUCTURE OF EXCISE DUTIES: ASSUMPTIONS

1. Wine Consumption

Total UK wine consumption is assumed to be split as follows:

<u>£ million</u>		
Wine	17.0%	200
	12.5%	265
	10.5%	200

2. Alcohol Content

	<u>% alcohol</u>	<u>Unit</u>	<u>cl alcohol per unit</u>
Spirits	40.0	75 cl bottle	30.00
Wine	17.0	70 cl bottle	11.90
	12.5	70 cl bottle	8.75
	10.5	70 cl bottle	7.35
Beer	3.5	pint	2.00

3. Price per Unit (Base Position)

	<u>Base Price</u>	<u>Excise Tax</u>	<u>VAT</u>	<u>Reference Price</u>
Spirits	1.66	4.56	0.93	7.15
Wine	17.0%	1.07	0.31	2.40
	12.5%	1.12	0.29	2.20
	10.5%	0.86	0.25	1.90
Beer	0.38	0.15	0.80	0.61

Note: The reference retail price for spirits is for off-license sales. Adjustment to take account of sales in licensed premises would lead to a reference price of around £10.00 per bottle. Use of the lower price of £7.15 does not affect the comparative analysis of revenue from excise duty, but does lead to an understatement of VAT paid.

4. Sales (Base Position)

	<u>Million Units</u>
Spirits	328.95
Wine 17.0%	195.83
12.5%	335.02
10.5%	252.85
Beer	11,000.00

5. Price Elasticities

Own price and cross-price elasticity estimates, applied to volume sales, are presented below. Own price elasticities are shown on the principal diagonal of the matrix. For example, a 10% increase in the price of spirits will lead to a 9.3% decrease in volume sales; a 10% increase in the price of wine would lead to a 1.2% increase in volume sales of spirits.

Δ Volume \ Δ Price	Spirits	17%	Wine 12.5%	10.5%	Beer
Spirits 17%	-0.93	0.12	0.12	0.12	0.12
12.5%	0.12	-0.76	1.00	1.00	0.12
10.5%	0.12	1.00	-0.76	1.00	0.12
Beer	0.30	0.30	0.30	0.30	-0.20

Appendix 5

DETAILED ANALYSIS OF TAX CASES A-F

1. In the tables below, the following outcomes are shown:
 - (a) Sales - These represent the estimated annual sales volumes (in bottles for wine and spirits, and pints for beer) which would result from full adjustment to the price changes implicit in the tax rates for each case. They are calculated using the elasticity estimates in Appendix 4.
 - (b) Marginal Rate - This is the highest rate of excise tax per centilitre of alcohol applicable to a beverage. In Case B through F, for beverages below the threshold, this will be the basic rate of tax. Just as with income tax, for these beverages above the threshold, it will be the higher rate. In Case D, for example, beer and lighter wines pay the basic rate of 8.59p per centilitre on the entire alcohol content. However, spirits and wine above 15% pay the basic rate on content up to 15%, but the higher rate of 19.91p per centilitre on each centilitre of alcohol thereafter.
 - (c) Average Rate - This is simply the total excise per bottle or pint divided by the alcohol content in centilitres. For drinks below the threshold it will clearly be equal to the basic rate. For those above the threshold it will be higher, since they pay the higher rate on some of their alcohol content.
 - (d) Excise/Unit - This is simply the average rate of tax multiplied by alcohol content, giving the normal method of expressing excise tax per bottle, or pint.
 - (e) Total Excise - Calculated by multiplying excise per unit by sales volume.
 - (f) Price per Unit - This is calculated as the pre tax price, plus excise per unit, plus VAT.
 - (g) Change from Base - This is the difference between the price per unit, and the price per unit in Case A (i.e. the current or base case).
 - (h) VAT per Unit - Defined as the 15% of the pre-tax price plus excise per unit.

(i) Total VAT - Simply VAT per unit multiplied by sales volume.

2. It should be noted that the calculation procedure is iterative. A basic rate of tax is specified, along with the tax target. However, since the higher rate affects tax take not only directly, but also indirectly through its effects on final price and therefore sales volumes, it is impossible to derive a simple formula for the required higher tax rate. As a result, the higher tax rate must be calculated by numerically "stepping up" from the basic rate, until the tax target is achieved.

Case A

Current Position

Threshold = 15.00%

Tax Target = £3,815.00 Millions Excluding VAT

Unit		Spirits Bottle	Wine			Beer Pint	Total
			17.0% Bottle	12.5% Bottle	10.5% Bottle		
Sales	(MM UNITS)	328.95	195.83	335.02	252.84	11,000.00	
Marginal Rate*	(P)	15.20	8.58	9.04	10.76	7.50	
Average Rate*	(P)	15.20	8.58	9.04	10.76	7.50	
Cl Alcohol/Unit		30.00	11.90	8.75	7.35	2.00	
Excise Unit	(P)	456.00	102.13	79.10	79.10	15.00	
Total Excise	(£MM)	1,500.00	200.00	265.00	200.00	1,650.00	3,815.00
Price/Unit	(P)	715.30	240.00	220.00	190.00	60.95	
Change from Base	(P)	0.00	0.00	0.00	0.00	0.00	
VAT/Unit	(P)	93.30	31.30	28.70	24.78	7.95	
Total VAT	(£MM)	306.91	61.30	96.14	62.66	874.50	1,401.51
Total Tax	(£MM)	1,806.91	261.30	361.14	262.66	2,524.50	5,216.51

Case B

Target Position

Threshold = 15.00%

Tax Target = £4,000.00 Millions Excluding VAT

Unit		Spirits Bottle	Wine			Beer Pint	Total
			17.0% Bottle	12.5% Bottle	10.5% Bottle		
Sales	(MM UNITS)	286.60	159.23	338.11	294.77	11,135.40	
Marginal Rate*	(P)	24.44	24.44	8.15	8.15	8.15	
Average Rate*	(P)	18.33	10.07	8.15	8.15	8.15	
Cl Alcohol/Unit		30.00	11.90	8.75	7.35	2.00	
Excise Unit	(P)	549.87	119.81	71.33	59.92	16.30	
Total Excise	(£MM)	1,575.90	190.77	241.18	176.62	1,815.55	4,000.02
Price/Unit	(P)	823.25	260.33	211.07	167.94	62.45	
Change from Base	(P)	107.95	20.33	-8.93	-22.06	1.50	
VAT/Unit	(P)	107.38	33.96	27.53	21.91	8.15	
Total VAT	(£MM)	307.75	54.07	93.00	64.57	907.05	1,426.52
Total Tax	(£MM)	1,883.64	244.84	334.26	241.19	2,722.60	5,426.54

* Excise per cl alcohol

Case C

Target Position

Threshold = 15.00%

Tax Target = £4,000.00 Millions Excluding VAT

Unit		Spirits Bottle	Wine			Beer Pint	Total
			17.0% Bottle	12.5% Bottle	10.5% Bottle		
Sales	(MM UNITS)	303.88	162.18	335.55	292.24	10,975.10	
Marginal Rate*	(P)	22.09	22.09	8.37	8.37	8.37	
Average Rate*	(P)	16.94	9.98	8.37	8.37	8.37	
Cl Alcohol/Unit		30.00	11.90	8.75	7.35	2.00	
Excise Unit	(P)	508.33	118.80	73.23	61.52	16.74	
Total Excise	(£MM)	1,544.71	192.68	245.73	179.78	1,837.13	4,000.03
Price/Unit	(P)	775.48	259.18	213.25	169.78	62.95	
Change from Base	(P)	60.18	19.18	-6.75	-20.22	2.00	
VAT/Unit	(P)	101.15	33.81	27.82	22.15	8.21	
Total VAT	(£MM)	307.37	54.83	93.33	64.72	901.15	1,421.40
Total Tax	(£MM)	1,852.08	247.51	339.07	244.49	2,738.28	5,421.43

Case D

Target Position

Threshold = 15.00%

Tax Target = £4,000.00 Millions Excluding VAT

Unit		Spirits Bottle	Wine			Beer Pint	Total
			17.0% Bottle	12.5% Bottle	10.5% Bottle		
Sales	(MM UNITS)	321.86	165.04	333.39	290.08	10,824.00	
Marginal Rate*	(P)	19.91	19.91	8.59	8.59	8.59	
Average Rate*	(P)	15.67	9.92	8.59	8.59	8.59	
Cl Alcohol/Unit		30.00	11.90	8.75	7.35	2.00	
Excise Unit	(P)	469.99	118.04	75.14	63.11	17.17	
Total Excise	(£MM)	1,512.73	194.82	250.50	183.08	1,858.90	4,000.02
Price/Unit	(P)	731.39	258.30	215.44	171.62	63.45	
Change from Base	(P)	16.09	18.30	-4.56	-18.38	2.50	
VAT/Unit	(P)	95.40	33.69	28.10	22.38	8.28	
Total VAT	(£MM)	307.05	55.60	93.69	64.93	895.80	1,417.08
Total Tax	(£MM)	1,819.78	250.42	344.18	248.01	2,754.70	5,417.10

* Excise per cl alcohol

Case E

Target Position

Threshold = 5.00%

Tax Target = £4,000.00 Millions Excluding VAT

Unit	Spirits Bottle	Wine			Beer Pint	Total
		17.0% Bottle	12.5% Bottle	10.5% Bottle		
Sales (MM UNITS)	414.51	181.71	340.38	298.64	10,615.20	
Marginal Rate* (P)	11.35	11.35	11.35	11.35	8.80	
Average Rate* (P)	11.03	10.60	10.33	10.14	8.80	
Cl Alcohol/Unit	30.00	11.90	8.75	7.35	2.00	
Excise Unit (P)	330.88	126.13	90.39	74.50	17.61	
Total Excise (£MM)	1,371.51	229.19	307.66	222.49	1,869.21	4,000.05
Price/Unit (P)	571.41	267.60	232.98	184.71	63.95	
Change from Base (P)	-143.89	27.60	12.98	-5.29	3.00	
VAT/Unit (P)	74.53	34.90	30.39	24.09	8.34	
Total VAT (£MM)	308.94	63.43	103.44	71.95	885.45	1,433.20
Total Tax (£MM)	1,680.45	292.62	411.09	294.44	2,754.66	5,433.25

Case F

Target Position

Threshold = 15.00%

Tax Target = £4,000.00 Millions Excluding VAT

Unit	Spirits Bottle	Wine			Beer Pint	Total
		17.0% Bottle	12.5% Bottle	10.5% Bottle		
Sales (MM UNITS)	359.89	170.50	330.16	286.72	10,547.30	
Marginal Rate* (P)	16.02	16.02	9.02	9.02	9.02	
Average Rate* (P)	13.40	9.85	9.02	9.02	9.02	
Cl Alcohol/Unit	30.00	11.90	8.75	7.35	2.00	
Excise Unit (P)	401.91	117.16	78.94	66.31	18.04	
Total Excise (£MM)	1,446.41	199.76	260.63	190.12	1,903.11	4,000.03
Price/Unit (P)	653.09	257.28	219.82	175.29	64.45	
Change from Base (P)	-62.21	17.28	-0.18	-14.71	3.50	
VAT/Unit (P)	85.19	33.56	28.67	22.86	8.41	
Total VAT (£MM)	306.57	57.22	94.66	65.56	806.66	1,410.67
Total Tax (£MM)	1,752.98	256.98	355.29	255.68	2,789.77	5,410.70

* Excise per cl alcohol