



The Wine and Spirit Trade Association Budget Submission Spring 2021



The UK's wine and spirit sector is world class, but under pressure. Covid-19 has fundamentally affected the wine and spirit businesses we represent – and especially their 'shop window', the hospitality sector. The Budget represents an opportunity for the government to offer some respite to our industry and its consumers.

If the businesses we represent are to recover, many of whom are Small and Medium Enterprises (SMEs), this Budget should mark the start of a concerted effort by government to support a sector with huge potential. In the short term our members need support to keep businesses afloat and to maintain jobs. Offering support now will safeguard UK businesses, protect future income to the Treasury, and support a quick and sustainable recovery for the UK's hospitality sector.

This short-term support should be followed by further action to nurture our industry's ambitions. Many wine and spirit businesses should be encouraged to grow and to reach their full potential on the world stage, taking advantage of the reputation for quality for which the UK's wines and spirits are renowned.

The WSTA is asking for a reduction of the tax burden on wine and spirits businesses at this Budget; and urging government to work with the WSTA to comprehensively reform the UK's alcohol taxation regime in the medium term, making it simpler and fairer - and far more supportive of the sector.

The WSTA is calling on the Chancellor to:

Cut excise duty on wines and spirits.

Extend the temporary VAT cut for hospitality, introduced last year, to March 2022, and broaden it to include sales of alcoholic drinks.

I hope that you will consider this request as a first step towards greater support for a great British industry that has the potential to support the government's aims to build back better.



Miles Beale,
Chief Executive, WSTA

The Wine and Spirit Trade Association (WSTA) is the largest alcoholic drinks trade association, speaking on behalf of over 300 UK companies that produce, import, distribute and retail wine and spirits. The businesses we represent make a significant contribution to the UK economy, supporting some 360,000 jobs, contributing £49 billion every year in economic activity and paying more than £12 billion in duty and VAT. The UK government's latest alcohol duty bulletin notes that 73% of all alcohol duties collected come from wine and spirits.

The industry has a diverse supply chain, including distilleries, vineyards, producers, distributors, bottling plants, pubs and the wider hospitality sector, logistics companies and retailers. Here in the UK we are the heart of the world wine and spirit trade. We are the world's largest exporter of spirits and the world's second largest importer of wine - by both volume and value.

The UK is at the centre of the world's wine trade, and is a major global trading hub thanks to our state-of-the-art facilities for wine sent here from around the world for onward shipment to the EU, northern Europe and across the northern hemisphere.

Re-exporting, together with the fine wine trade and growing English and Welsh wine exports, mean that total wine exports from the UK were worth £646 million in 2019, making wine the sixth most valuable food export category.

The UK spirit industry is well-established and continues to grow, with the number of UK distilleries increasing by almost 200% in 7 years - from 152 in 2013 to 441 in 2019. As the world's largest spirits exporter, in 2019 the value of spirits exports from the UK exceeded £6 billion for the first time. Led by British gin's boom at home and abroad, new and innovative spirit drinks are regularly released to the market, representing a thriving industry that is rich in SMEs.





£49 billion
in economic activity



£17 billion
in total contributions to
the public purse



£22 billion
in sales



360,000
employees across
the supply chain

The wine industry



The spirit industry



£11 billion
in sales



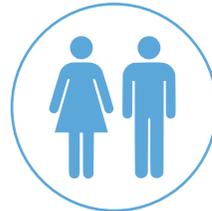
£11 billion
in sales



£4.4 billion
duty paid



£3.8 billion
duty paid



130,000
employees across
the supply chain



230,000
employees across
the supply chain

“As the UK’s unemployment rate climbs to its highest level in 2 years, it is clear the government needs to support jobs, particularly for young people. I am calling on the Chancellor to be creative and cut duties, to support employment and hospitality, and help young people into the world of work.”

Dr James Davies
MP for Vale of Clwyd

“The UK’s wine and spirit sector employs some 360,000 people, and as we work through the deepest recession in modern times, it’s important that the government offers support to the businesses and all those employed throughout the sector. A cut in duty would go a long way to providing this support, and that’s why I am supporting the WSTA’s calls for a cut in duty this Spring.”

Helen Grant
MP for Maidstone and The Weald

“Following the additional Covid-19 lockdowns, it is clear the government will need to provide more support to hospitality supply chains who have been dealt a huge blow by enforced closures. Businesses need a workable plan that cuts VAT and duty rates to give them the best possible chance of recovery, and to promote job growth as we begin to exit the crisis.”

Neil Coyle
MP for Bermondsey and Old Southwark

Even before the onset of Covid-19, 2020 represented, for many members with complex global supply chains, the most challenging year ever. Preparations for the end of the Transition period on 31st December, a difficult trading environment across both the on- and off-trade and increasing global tensions that threatened export growth all served to heighten the challenge. For many WSTA members, any ambitions for growth or export had to be placed on hold.

Of course, the outbreak of Covid-19 served only to exacerbate the scale of the challenges facing the sector, and measures aimed at limiting the spread of the virus had a devastating impact, both on hospitality businesses that were forced to close, and wine and spirit businesses that supplied the on-trade. Whilst many businesses adapted to find alternative channels for trading, the closure of the on-trade inevitably had a hit on revenues.

While some supply chain businesses have missed out, the WSTA warmly welcomed the government support for the sector during the pandemic, with schemes such as the Job Retention Scheme and Eat Out to Help Out, along with grants and the offer of duty deferment and business rates relief, all providing much needed support to those we represent. But with limited openings for hospitality, leisure and tourism outlets during the Summer and Autumn, many of those we represent have been operating under restrictions since last March, placing a huge burden on the business and creating an uncertain future.

As 2021 unfolds, many businesses continue to face many of the same Covid-related challenges as last year. Once again, the hospitality sector has been forced to close, most high street businesses shut down, and consumer demand suppressed. Wineries and distilleries have been prevented from offering on-site visits to their vineyards or distilleries, curtailing a vital revenue stream, and are not permitted to offer takeaway or delivery services.

The consequences and lasting impact of the pandemic are not yet fully apparent. Our industry needs to benefit from a supercharged restart when the government's conditions for reopening the economy are met.

The Spring 2021 Budget represents a crucial opportunity for the government to go further than simply aiding a return to 'normal business conditions' for our sector. When the government's vaccination programme has been rolled out and strict measures on businesses are lifted, the wine and spirit industry wants to be in a position to help the government to build back better. To do this, businesses in our sector need a vote of confidence and a show of support.

How much is tax on wine?



Duty on an average priced 75cl bottle =

£2.23
+ 97p VAT

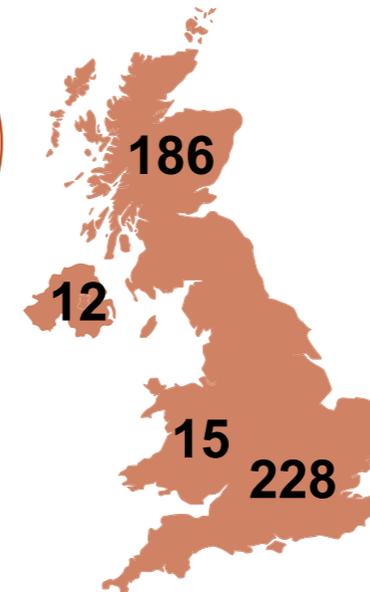
How much is tax on spirits?



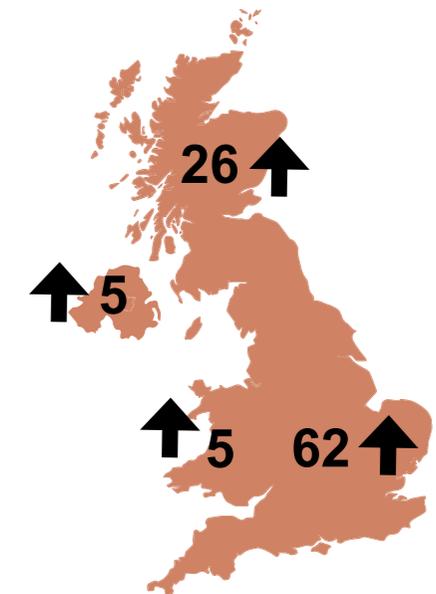
Duty on an average priced 70cl bottle (40% ABV) =

£8.05
+ 2.32p VAT

Total UK Distilleries in 2019



New Distilleries in 2019



1) **We are not drinking more** - Wine and spirit businesses have had to contend with repeated, and misleading stories in the media suggesting that many of us have been 'boozing our way through lockdown'. Where 2020 has seen closure of or restrictions on hospitality, tourism, leisure and the high street, demand has moved to channels that have remained open. Nevertheless, over the last 12 months, sales of wine by volume fell 6%, with sales of spirits by volume rising only marginally by 1%.

2) **The on-trade won't recover immediately, it needs time and support** - From 4th July, on-trade venues were permitted to re-open, albeit in a restricted manner. Data provided to the WSTA by CGA shows that in the 3-month period after 4th July, sales of alcoholic drinks in on-trade venues were down around 40% on the same 3-month trading period in 2019 by volume, reflecting the hit to consumer confidence since measures were introduced in March 2020.

3) **There will be a significant structural hit to the hospitality sector** - This will mean the sector will be smaller, and will need continued support to recover then grow. We have seen several high-profile restaurant chains close venues, which has negatively impacted on their suppliers.

4) **Change engenders uncertainty, which stunts recovery and growth** - As the third national lockdown continues, it is impossible predict the timing and nature of an economic recovery, and any recovery will depend almost entirely on how the Covid-19 pandemic continues to play out - and how quickly businesses are able to re-open. Businesses in our sector that are managing the changes wrought to our industry by Covid-19 are also dealing with a changed trading environment. The short-term impact of the end of the Transition period, and the fluidity currently required by business to respond to the processes around the new customs border between the UK and the EU further add to significant business uncertainty. But this is a sector that is resilient, has potential and a global footprint with room to grow – and it will respond positively and quickly to the right signals and support from government.

In March of last year, the Chancellor announced that all alcohol excise duties were frozen, which avoided increasing the burden on drinks industry businesses and consumers as measures to address Covid-19's spread took hold - but the closure of on-trade venues days after the announcement meant that businesses were unable to feel the benefit, and this year the Treasury must go further.

The WSTA is therefore asking for wine and spirit duty to be cut.

A cut now should be a prelude to a permanent change in the heavy burden that excise duty imposes on the UK's world-class, potential-filled wine and spirit businesses so that they can excel in the UK and across the world over the coming decade.

In the medium term, the WSTA is ready to work with government to achieve a simpler, fairer system of alcohol taxation in the UK through the Alcohol Duty Review.

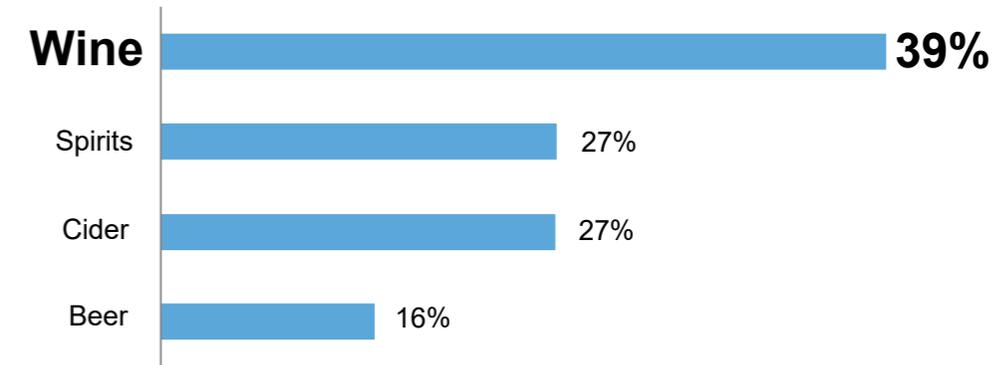
Excise duty is not the only concern, either - VAT bites especially hard in the hospitality sector, which acts as the 'shop window' for wines and spirits – which has been closed for large parts of the last 12 months.

Last Summer, the government's endeavours to drive footfall, namely the temporary VAT cut for hospitality and the 'Eat Out to Help Out' scheme, were largely successful.

As it stands, the temporary cut in VAT to 5% on soft drinks and food will lapse in March. To support the hospitality industry in their recovery, the WSTA supports extending the scheme until at least March 2022.

Furthermore, as the VAT burden on alcoholic drinks is generally larger than the excise duty burden, the WSTA is urging the government to broaden the scheme, so as to include alcoholic drinks – this would send a strong signal of support to British wine and spirit businesses as they recover.

Since 2010, duty on wine has increased 39%, in comparison to...



The UK's wine and spirit landscape is made up of a large number of SME businesses. The measures we outline would disproportionately support these businesses, which represent the backbone of our homegrown wine and spirit industry and offer rich potential for growth, job creation and increasing trade in line with the ambitions of Global Britain.

The growth in numbers in recent years of small, artisanal distilleries is a great British success story.

The latest 2019 figures as per HMRC show that Britain now boasts some 441 distilleries - an increase of 22% on 2018 and of 190% on 2013. The UK spirits industry today is unrecognisable from even a decade ago – when, in 2010, there were just 23 distilleries in England. Today, England is home to at least 228, overtaking Scotland's total for the first time in 2018.

This growth can be almost entirely attributed to the renaissance and exponential growth of gin and a wave of some of Britain's most innovative and exciting SMEs, and these businesses make up the backbone of the new spirit industry in the UK.

The continued growth of British gin helps ensure that it contributes a share of excise duty in excess of the contribution made by Scotch, with much of Scottish whisky produced for export. Gin contributes 21% of all spirits excise duties, compared to Scotch's 19%.

Cutting duty to help these British distillers would also protect the tax base, and help these businesses survive so they can continue to make their considerable contribution to Treasury coffers.

For many SME distillers, the on-trade represents the 'shop window' for their products.

With repeated closures of venues, now again until at least March 2021, this shop window is closed and many small businesses are suffering disproportionately as a result.

This is compounded as businesses are prevented from offering on-site visits or distillery tours, and during this lockdown are also unable to offer the takeaway and delivery services for their products that represented a vital lifeline last time around.

Unlike other businesses - pubs, bars and restaurants, for example - these businesses and the entrepreneurs that founded them have been unable to access much of the same government support afforded to the wider hospitality sector.

A duty cut would provide immediate support to ailing businesses and be a catalyst for recovery. Lower duty in the medium-term would support growth, creating new jobs and allowing the exploration of export markets to start sooner as the UK redefines its trading relationships with key export markets.

Cotswolds Distillery - A case study of a British SME distiller

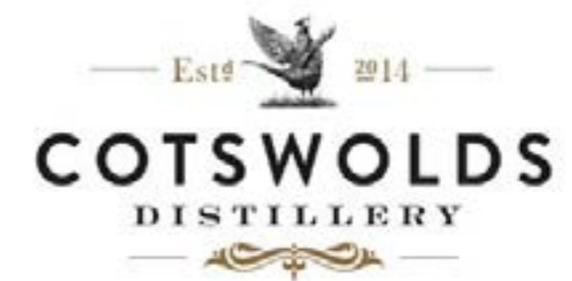
"The Cotswolds Distillery is a producer of premium spirits based in Warwickshire. From a standing start in 2014 the business now employs nearly 50 people in a rural economy across a variety of functions, with revenues approaching £5m. Crafting whisky, gin and other high-end spirits at our Cotswolds brand home and exporting to 36 countries globally, the business has ambitious plans over the next 5 years and has been securing strong growth each year since its inception.

In 2020 the business has adapted quickly to the Covid world and has invested accordingly, including:

- A new digital agency partner and investment in digital media to optimise the online opportunity for our own e-commerce*
- Increasing reach and investment with other online partners big and small*
- An accelerated new product development programme to build consumer interest*

The business continued to invest in these initiatives at a time when revenue was affected by the closure of our retail and leisure operations during lockdown, the loss of out of home volume and a significant reduction in international business from key markets such as the USA and France.

Excise duty is a key component of our commercial mix and affects the level of which we can invest in our brand both in the UK and internationally. An increase in UK duty rates will reduce the investment in our brand and infrastructure, and we urge you to consider the WSTA's asks for a cut in the excise duty rate."



While much of the UK's spirit industry is comprised of SMEs, the same is also true of the UK's wine importers, fine wine merchants and independent retailers, which are often founded on entrepreneurial spirit and are a vital part of what makes the UK a major hub for the global wine trade. The UK is a significant exporter of wine, sending wine valued at £646 million overseas from our shores last year.

English and Welsh wineries, too, continue to grow – latest numbers show that at least 3,500 hectares of land are under wine across England and Wales, and over the last 10 years, yields have more than doubled. English and Welsh wines continue to receive high praise and awards, and the category is known for exceptional quality and taste in key export markets like the USA and the Far East.

With global supply chains and demand disrupted because of the outbreak of Covid-19 around the world, many smaller wine businesses are in a similar position to the spirits companies detailed above, and will require continued backing from government as they forge ahead with recovery plans.

Similarly, many UK wine importers specialise in procuring and supplying wines for the on-trade, and have been forced to contend with seeing their income reduced to zero as a result of the UK's lockdown, and they too will need support as they seek to recover in 2021.

Extending the temporary VAT cut for hospitality venues introduced last year until at least March 2022, and broadening the scope of the scheme to include alcoholic drinks would help promote the hospitality sector as the 'shop window' for British SME wine and spirit businesses. Furthermore, these measures would signal a strong showing of support from the government to all UK wine and spirit SMEs that they are being backed to survive,



Simpsons Wine Estate - A case study of a English wine producing SME

Charles and Ruth Simpson took their first plunge into wine making back in 2002 when they bought a vineyard in the South of France. They bought viticulturally suitable land in Kent in 2012, and since then, their English wine business has gone from strength to strength - employing 19 people, planting more vines and producing around 200,000 bottles of wine a year.

Charles Simpson, owner of Simpsons Wine Estate, says:

"The duty rates on wine in the UK are ridiculously high compared to France. I personally feel that wine duty at this level in the UK is really punishing to entry-level producers.

I would like to see UK look to our European counterparts' approach and the government to become more supportive of UK wine producers, similar to how the French government has nurtured its domestic industry through low duty. This will truly help put English wine on the map and benefit consumers, too.

Supporting SME businesses like ours provides great career opportunities for the local community, and wineries in the UK provide the opportunity to offer skilled, well-paid jobs in the rural community.

The wine industry also provides the opportunity to drive footfall to the local community through wine tourism. During summer 2020, we saw an increase in domestic tourism and we believe this trend will continue post-Covid - vineyards provide the perfect destination. This will also have a ripple effect offering a boost to the wider local hospitality trade.

The UK government should decrease the duty on wine to encourage the growth of British SME's like ours, help out cash strapped consumers and aid the recovery of the hospitality sector."



Speaking for the wine and spirit trade

The WSTA represents over 300 companies producing, importing, exporting, transporting and selling wines and spirits in the United Kingdom.

WSTA members range from major retailers, brand owners and wholesalers to fine wine and spirit specialists, logistics and bottling companies.

We campaign for a vibrant and sustainable wine and spirit industry, helping to build a future in which alcohol is produced, sold and enjoyed responsibly.

The Wine and Spirit Trade Association

@WSTAUk

www.wsta.co.uk



www.wsta.co.uk



info@wsta.co.uk



+44 (0)20 7089 3877



@wstauk

The Wine and Spirit Trade Association
International House, 39-45 Bermondsey Street
London
SE1 3XF

Registered number: 410660 England Limited by Guarantee