

EXPLANATORY MEMORANDUM

THE BEER FROM SMALL BREWERIES (EXTENSION OF REDUCED RATES OF EXCISE DUTY) ORDER 2004 No.1296

Legislation

The Order relies on the powers conferred on the Treasury by Section 36H of the Alcoholic Liquor Duties Act 1979 (ALDA). The Order is subject to an affirmative procedure.

The Finance Act 2002 amended ALDA and introduced reduced rates of excise duty for beer from small breweries producing up to 30,000 hectolitres of beer a year. Reduced rates applied from 1 June 2002. This Order will extend the reduced rates of duty on a tapered basis, from 1 June 2004, to breweries producing up to 60,000 hectolitres a year.

Policy Objective

The reduced rates of duty that were announced in Budget 2002 and introduced from 1 June 2002 are known as the Small Breweries' Relief scheme (SBR). The scheme applies throughout the UK and was introduced to level the playing field for the smallest breweries by actively providing support for them. The objective of SBR stemmed from the Government's aim for alcohol duties which is to achieve a fairer balance of the burden of taxation falling on different drinks and different types of producer while raising the revenue required to fund essential public services.

Small breweries face difficulties in bringing their products to market because they have to compete with larger breweries that enjoy better economies of scale and are able to offer bigger discounts to wholesalers. SBR has helped small breweries to invest in product development and market penetration, compete better with their larger competitors on price and so maintain the diversity of products available to the consumer.

The SBR scheme is based on EU Directive 92/83/EEC which allows reduced rates of duty, of no more than 50 per cent below the standard rate, to be applied by breweries producing up to 200,000 hectolitres of beer a year. However the UK decided to target the reduced rates of duty at the smallest breweries to help them survive and grow so only those producing up to 30,000 hectolitres a year are eligible for SBR. Breweries producing up to 5,000 hectolitres pay half the standard rate of duty. Those producing between 5,000 and 30,000 hectolitres pay half the standard rate on the first 5,000 hectolitres of production. They use a formula, specified in sections 36D and 36F of ALDA, to calculate the reduced rate of duty which is worth almost £128,000 a year. 9 out of every 10 breweries benefit from the SBR scheme although they produce only around 1.5 per cent of total beer production by volume.

In 2003 the Government called for evidence from the trade on the effectiveness of the SBR scheme in its first year of operation. The evaluation document was issued in July 2003 and the closing date for responses was 31 October 2003. Many of the responses received commented on the success of the scheme and some directly linked

their survival to it. Most breweries used the duty savings to invest in their businesses, for example in new equipment, plant or by employing additional staff. A summary of responses to the Call for Evidence will be issued shortly on the H M Customs and Excise website www.hmce.gov.uk.

During the evaluation, trade bodies and some brewers expressed concerns about the effect of sudden withdrawal of the reduced duty rates when brewery production exceeds the 30,000 hectolitres annual production limit. Loss of SBR causes a significant step-up in duty liability and some responses said that this situation creates a “glass ceiling” and is a disincentive to growth. Loss of SBR will be counter-balanced to some extent by increasing profits as production rises above the current upper production limit.

The Government considered what action could be taken to address this issue in an otherwise very successful scheme and in Budget 2004 announced that it would extend the upper production limit for eligibility for reduced rates of duty to 60,000 hectolitres a year from 1 June 2004. For breweries producing more than 30,000 hectolitres a year and up to 60,000 hectolitres a year the reduced rates of duty will taper off so that by the time a brewery has reached the new upper limit, duty will be paid at the full duty rate. The reduced rates of duty for these breweries will be calculated using a new formula which is specified in sections 36D and 36F of ALDA.

Affirmative Resolution

This Order is subject to affirmative resolution because this is required by section 36H(4) ALDA.

Compatibility of the Instrument with Convention Rights

In the view of the Economic Secretary to the Treasury the provisions of this Order are compatible with the Convention rights specified in section 1 of the Human Rights Act 1998.

Transposition Note

A Transposition Note is attached to this Memorandum to reflect the change to the SBR scheme.

Regulatory Impacts and identifiable costs

A full regulatory impact assessment has not been produced for this instrument as it has no impact on the costs of business, charities or voluntary bodies.

The SBR scheme costs £15 million a year at present and this change will cost around an additional £1 million. Total beer duty receipts in 2002/03 were almost £3 billion.

There are no costs to the public from the SBR scheme.