



**National Off-Licence Association (NOFLA) Submission to the  
Minister for Finance for Budget 2014**

*24 July 2013*



## CONTEXT AND RECOMMENDATIONS

Independent off-licences make a significant social and economic contribution to Ireland Inc. However, that contribution is currently vulnerable due to the significant duty placed on alcohol in Ireland and the unequal trading environment in which independent off-licences are conducting business. This is putting jobs and businesses at risk all over Ireland and threatening the survival of this important indigenous sector.

The National Off-Licence Association (NOFLA) presents this pre-budget submission and calls on Government to begin to actively support the independent off-licence sector and introduce measures to stimulate jobs and growth, as opposed to unemployment and business closures.

NOFLA proposes two recommendations for Budget 2014:

- 1. No further increases in excise duty and a reversal of the 2013 increases; and**
- 2. Introduce measures to stop the below cost selling of alcohol.**

The principal reasons for the current industry difficulties and business closures are declining sales (and therefore turnover) as a result of the 2013 increase in excise duty and the irresponsible promotion and sale of deeply discounted alcohol which is being used as a driver of footfall into mixed trading outlets.

If this unfair and unsustainable trading environment is not tackled urgently, this community-based sector will disappear entirely – with a significant loss of jobs and revenue to the State.

This will not be replaced by any other group as the multiples will continue to squeeze margins and engage in irresponsible selling practices.

These recommendations reflect the following facts which NOFLA would like to bring to your attention:

- We believe that the retail sector's current weak economic and trading environment will continue into 2014, affecting consumer confidence and spending, and increasing the pressure under which these businesses operate;
- There is a compelling need to support independent off-licences across Ireland, which contribute millions to the economy in employment, rates and taxation:
  - 5,300 jobs;
  - 1,669 businesses<sup>1</sup>;

---

<sup>1</sup> Office of the Revenue Commissioners, Excise & Licences, Register of Renewed Licences

- Independent off-licences are particularly vulnerable in the retail sector as they are losing market share to multiple retailers whose profits, in many cases, exit Ireland, and whose sales tactics include below cost selling, deep discounting, aggressive and irresponsible alcohol sales techniques. The lack of a level playing field with these players has led to large sales volume declines, significant job losses and business closures:
  - 3,000 jobs have been lost since 2008 in the independent off-trade sector;
  - 544 off-licences (wine and/or beer and/or spirits) have closed or lapsed since 2008;
  - 21 off-licences ceased trading in 2012;
  - 10 independent off-licences have closed this year alone.
    - *Carvills Camden Street, Dublin;*
    - *Next Door Harold's Cross, Dublin;*
    - *The Submarine Bar Off-Licence, Dublin;*
    - *The Wine Boutique, Dublin;*
    - *Quinns, Dublin;*
    - *Swords Unwined Wine Shop & Off-Licence, Dublin;*
    - *Williams & Allen Wines, Dublin;*
    - *Next Door Enfield, Meath;*
    - *The Strand Off-Licence, Dublin;*
    - *Carry Out, Kildare.*
- This situation will continue to worsen this year and next, with further business closures and job losses expected. Based on the current rate of closures, NOffLA expects a further 10-15 business to cease trading this year and 20-25 in 2014;
- As with most other SMEs in Ireland, the impact of the severe lack of access to credit for independent off-licences is critical, as is the high trading costs for independent off-licences<sup>2</sup>;
- We believe that there are disproportionately high rates of alcohol taxes in Ireland compared to the large majority of other EU countries<sup>3</sup>;

---

<sup>2</sup> NOffLA Members' Survey, Conducted 8th May 2013

- There has been a continuing decline in the domestic drinks industry in the early part of 2013 as measured by retail sales and Revenue clearances. This has been caused by the ongoing decline in average adult consumption which peaked in 2001 at 14.44 Litres Per Annum (LPA) and was 11.681 LPA in 2012. It is likely to decline again in 2014.<sup>4</sup>

## RECOMMENTATIONS

***1. No further increases in excise duty and a reversal of 2013 increases: NOffLA asks the Minister for Finance, Michael Noonan TD to avoid any further increase in excise duty rates in Budget 2014 and to restore the pre-Budget 2013 position.***

Budget 2013 introduced substantive increases in the alcohol excise duty of beer and cider (+22%), spirits (+18%) and wine (+41%). Ireland is a **high tax economy** in terms of alcohol products. Taxes on beer are the fourth highest in the EU, cider the second highest, spirits the third highest and wine the highest in the EU<sup>5</sup>, all of which encourages out of state retailing by Irish holidaymakers. In addition, Irish beer tax is almost ten times the level of Germany which is a substantial tourism market for Ireland; cider tax is 1.6 times the UK level and spirits tax is 4.4 times the level in Spain.

The introduction of increased excise duty in 2013 has had a **deep and damaging impact** on independent off-licences who were already experiencing declines in sales and turnover. In a recent survey<sup>6</sup>, 75% of NOffLA members said that they were experiencing a serious volume decline in sales in 2013 due to higher excises. Independent off-licences cannot absorb the excise increases – unlike multiple retailers – and the decreased sales highlight the damage that has been done. It is unlikely that a further increase in excise would have any significant impact for large multiples but for the independent off-licence sector, it would mean more business closures and job losses.

Also, it is important to state that the fiscal targets for 2013's increased excise duty are well below expectations currently.

Budget 2013 expected excise to increase by €180 million or 21% on the 2012 level (without allowing for buoyancy effects). Figures from the Department of Finance, from January to May 2013, show that alcohol excise receipts are substantially below this expected increase<sup>7</sup>. In the first five months of 2013, alcohol

---

<sup>3</sup> European Commission, DG Taxation and Customs Union, Indirect Taxation;  
<http://www.drinksindustry.ie/easyedit/files/Tony%20Foley%20Paper%20on%20Alcohol%20Consumption%202012.pdf>

<sup>4</sup> Estimates of Alcohol Consumption Per Adult in 2012 by Anthony Foley, commissioned by DIGI :  
[http://ec.europa.eu/taxation\\_customs/resources/documents/taxation/excise\\_duties/alcoholic\\_beverages/rates/excise\\_duties-part\\_i\\_alcohol\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/taxation/excise_duties/alcoholic_beverages/rates/excise_duties-part_i_alcohol_en.pdf)

<sup>5</sup> European Commission, DG Taxation and Customs Union, Indirect Taxation:  
<http://www.drinksindustry.ie/easyedit/files/Tony%20Foley%20Paper%20on%20Alcohol%20Consumption%202012.pdf>

<sup>6</sup> NOffLA Members' Survey, Conducted 8th May 2013

<sup>7</sup> Response to Parliamentary Question by Minister for Finance, Michael Noonan TD 11<sup>th</sup> June 2013



excise revenue was only 9.7% higher than in the same period in 2012. However, excise receipts for January to May 2013 highlight that revenue from spirits decreased by €1.2million. This shows that **indirect tax increases can be extremely counterproductive.**

Also, in the first three months of 2013 alcohol clearances declined by 4.4 % compared with 2012, partly due to the 2013 excise increases.

Based on excise receipts from January to May 2013, and allowing for increased duty rates in Budget 2013, duty paid volumes are down in the following alcoholic beverage categories:

- Beer volumes decreased by 13% (*The equivalent of 22,872 million litres*);
- Spirits volumes decreased by 16.3% (*The equivalent of 1.22 million litres*);
- Wine volumes decreased by 9.8% (*The equivalent 3.07 million litres*);
- Cider volumes decreased by 16.3% (*The equivalent of 3.480 million litres*).

Thus, the stated purpose of 2013's excise duty, to raise additional exchequer funds, is not currently being met, while the knock on effect of this duty rise has already seen significant volume declines across all alcoholic beverage categories.

Furthermore, alcohol products are **prime targets for counterfeiters** in the European market due to their brand value, high tax and the excise component of the final price. All of this adds to the price that can be charged by counterfeiters. According to the Revenue Commissioners,<sup>8</sup> the number of seizures of counterfeit and contraband alcohol in Ireland has increased from just above 100 in 2008 to over 350 seizures in 2012.

#### Alcohol seizures

Year	Number of seizures	Litres
2008	115	22,305
2009	392	96,532
2010	275	43,498
2011	361	32,196
2012	355	32,834

Source: Revenue Commissioners Headline Results 2009-2012

These numbers indicate that there has been a **significant increase in illicit traders'** activity in Ireland with regard to counterfeit/contraband alcohol. These figures do not reflect the large duty increases in

---

<sup>8</sup> *Illicit Trade in Ireland, Uncovering the Cost to the Irish Economy*, Grant Thornton: <http://www.grantthornton.ie/db/Attachments/Illicit-Trade-in-Ireland-report.pdf>



budget 2013 and NOffLA would expect the 2013 figures for seizures to be higher than those seen in 2012 because higher excise rates make the process much more lucrative.

The key incentive for counterfeiters to engage in illicit alcohol trade is the possibility of achieving high margins. Countries with high alcohol duty (e.g. Scandinavia, Ireland) are more vulnerable to illicit trade in alcohol. Smugglers can purchase generic alcohol products in low excise duty countries and then sell them in countries with high excise duty rates, therefore making a profit based on the difference between excise duty rates.

Ireland has one of the highest levels of excise duty which provides a **high incentive for counterfeiters** to enter the Irish beverage market. The current legislative and enforcement systems in the area of illicit trade do not act as strong enough disincentives. In many instances the benefits of carrying on illicit activities are considerably higher than the penalties and risks of being prosecuted.

The benefit to the exchequer from 2013 excise increases stands at €29 million (January to May<sup>9</sup>). **NOffLA asks, is the revenue raised through excise good enough to justify the countless job losses, business closures, and increases in illicit trade that have resulted?**

The Association urges Government to reduce the level of excise.

***2. Stop the Below Cost Selling of Alcohol: NOffLA calls on Government to introduce measures that will stop multiple retailers selling alcohol below cost.***

Eliminating the practice of below cost selling would ensure that 1) the State gained an additional €21 million in revenue each year and 2) that alcohol was retailed in a responsible manner – deep discounting of alcohol would be eliminated which would protect the vulnerable in our society as well as save jobs and businesses across Ireland.

Prior to the abolition of the Groceries Order in 2006, it was not possible to sell alcohol at below cost. Since its abolition, retailers can reclaim VAT on the losses they incur on products chosen to be sold below cost. The Exchequer loses out significantly because of this practice. VAT is refunded on the higher bought in value and paid on the lower “below cost” selling value.

Banning the retailing of alcohol at below invoice cost price will ensure that retailers cannot reclaim 23% of the cost of the loss leader in their VAT return; saving the State an average of €21 million each year.

Reintroducing a ban on below cost selling would also eliminate deals promoting heavily discounted branded alcohol such as, ‘buy two 20 packs of premium branded beer for €25’. Not only will the banning of this practice help the Exchequer, it will also help to ensure that alcohol is retailed responsibly and

---

<sup>9</sup> Response to Parliamentary Question by Minister for Finance, Michael Noonan TD 11<sup>th</sup> June 2013

minimise the damage that such current promotions are having on health in Ireland, particularly amongst our young people.

## OFF-LICENCE MARKET

Overall, sales in the off-trade are continuing to grow, as they account for nearly 60% of all alcohol sales today<sup>10</sup>. However, the majority of this is confined to the multiples, discounters and symbol groups in the sector, which hold 78.2% of this share. These are the retailers who are benefiting from the shift to home consumption. The primary reason being that these retailers engage in irresponsible practices such as **deep discounting and below cost selling** to attract customers and drive footfall.

Independent off-licences held 21.8% of the market share in 2012<sup>11</sup> and it is likely that this figure will further reduce in 2013 and 2014. NOffLA estimates that independents will hold 19% market share in 2013 and 16% in 2014.

This is evidenced by the fact that:

- Overall off-licence sales volumes declined in Q1 and Q2 2013 and much of this decline is in the independent off-licence sector;
- Total market share in independent off-licences declined by 6.7% in 2012;
- In a survey of all NOffLA's members in May 2013<sup>12</sup>:
  - 54% reported that turnover had decreased by between 10-30% in 2012;
  - 46% stated that they expected their overall turnover in 2013 to be down;
  - In 2012, 41% stated that wine sales declined the most, 27% stated beer sales, 32% stated that spirits declined the most;
  - In 2012, 70% of members saw a 10-20% decline in spirits sales, and 16% saw a decline of 20% or more;
  - Overall, 78% of NOffLA's members attributed high taxes and deep discounting as the top two reasons for the decline in business.
- In trying to maintain competitiveness, prices in independent off-licences have declined by 1.1% in 2012 despite inflation of 2.8% on alcohol and tobacco. However, other mixed trade and

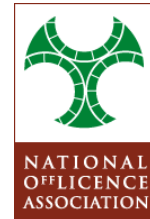
---

<sup>10</sup> *The Drinks Market Performance in 2012*, by Anthony Foley

<http://www.drinksindustry.ie/easyedit/files/Drinks%20Market%20Report%202012.pdf>

<sup>11</sup> *Nielson Ireland Monthly Off-Licence*, 12 Months Ending January 2013

<sup>12</sup> *NOffLA Members' Survey*, Conducted 8th May 2013



multiple outlets can still offer alcohol as a loss leader and driver of footfall, through the practice of below-cost selling, with which independents find impossible to compete.

## CONCLUSION

In a time of immense economic difficulties, NOFLA wishes to be seen as a constructive partner with Government. The **elimination of the below cost selling of alcohol** offers an alternative revenue-raising option to policymakers that is realistic, achievable and will ensure that fairness in the off-trade industry is upheld (*note that this is under careful consideration in the UK*).

If these policies are implemented they will ensure, 1) that the viability of the indigenous off-licence sector is sustained, whilst also protecting much needed jobs and businesses and, 2) that alcohol is retailed in the most responsible manner in which all retailers are subject to a level playing field.

The recommendations outlined above will not only benefit the independent off-licence sector but also the Irish Exchequer, at a time when significant economic challenges remain.

## FOR FURTHER DETAILS:

A handwritten signature in black ink that reads "Evelyn Jones".

**Evelyn Jones, Chairperson of NOFLA**

**Block D, Unit 6 / Nutgrove Office Park / Rathfarnham / Dublin 14**

**T: (01) 296 2326 / E: [evelyn@noffa.ie](mailto:evelyn@noffa.ie) / [www.noffla.ie](http://www.noffla.ie)**

## ABOUT NOFLA

NOFLA works to promote the responsible sale, marketing and consumption of alcohol in Ireland. It represents **315 independent specialist off-licences** across the county. NOFLA's members are specialist or pure off-licences whose only product is alcohol. They tend to be **owner-operated**, located in the heart of their communities and employ the **highest standards of expertise and excellence** when retailing alcohol.

The Association is the only trade body in the alcohol sector that requires its members to be fully trained in how to retail alcohol responsibly. To ensure the highest standard of training is provided, NOFLA developed and implemented the **Responsible Trading Certificate (RTC)** which ensures that independent off-licence employees are highly trained in retailing alcohol responsibly. To date, NOFLA has trained 645 alcohol retailers, (with 391 employees availing of the innovative e-Learning platform for this





programme). Similar controls are not in place in mixed trading outlets where little oversight is given to the sale of alcohol. It is common practice in some outlets for example to purchase alcohol at self-service checkouts.

By contrast, alcohol is the sole product for NOffLA's members'. Failure to adhere to licencing laws can lead to a licence being revoked, and also court proceedings being issued. This would mean the loss of livelihood and the loss of jobs and revenue to the local economy. It is therefore in our members' best interests to retail alcohol in the strictest, most transparent manner – the same cannot be said for multiples which do not face the same stringent penalties or consequences resulting from the loss of a licence.

Despite some believing that the off-trade is one homogenous sector, which is benefiting from the significant shift to home consumption, the job losses and business closures witnessed in this sector in the last few years show that this is not a true reflection. In total, **5,300 people** are employed in the independent off-licence sector in Ireland. This figure stood at **8,300 in 2008**.

## **UNIQUENESS OF INDEPENDENT OFF-LICENCES**

The contribution of the independent off-licence sector to Ireland Inc. and the alcohol sector cannot be underestimated. For example, independents off-licences:

- Undertake community policing of alcohol;
- Act as an alcohol liaison representative with schools, guards, parents, other traders to ensure retailing practices are above board and within the law;
- Provide the highest quality of expertise and responsibility when retailing alcohol;
- Provide a unique variety and choice of products – this will diminish as outlets diminish and this has already started to happen;
- Specialists off-licences sell quality and artisanal products sourced from small producers throughout the world whereas multiples are only interested in selling big brands;
- Independent specialist off-licences have in-depth knowledge of artisan producers and they build small indigenous brand recognition e.g. micro-breweries. This creates employment in those areas and opens up export markets;
- Independent off-licences attract customers through the high standard of the quality they sell not as a result of the price - selling at a loss helps neither consumers nor the trade at large. Deep discounting has led to a situation whereby consumers expect to spend next to nothing on alcohol,



thereby exposing themselves to lower quality. Producers are then pressured into producing ever cheaper products at lower quality – this is a vicious circle.