WineGB Budget (March) 2024 submission

Introduction

The English and Welsh wine sector is established, successful, and growing. To accelerate the growth of the industry, we look to other new world wine nations to learn from how they support their wine producing businesses. English and Welsh wine would benefit from a wider understanding across Government of our growth potential. Some of the measures identified below would support our acceleration from today and into the future. From the perspective of the sector, this assistance would include actions to support the UK market, tourism and export:

<u>UK Market</u>
A fairer tax regime for British wine, which would address the competitive disadvantage which the category has to contend with. This would take the form of:

- **Reducing duty for wine.** The UK is one of the few wine (still and sparkling) producing countries in Europe that levies excise on home-grown and produced products which puts its domestic producers at a competitive disadvantage.
- a **cut in excise duty for UK wines** in the Spring Budget as a means of stimulating sales, which in turn could deliver a knock-on increase in collected excise duty.
- **extending Small Producer Relief (SPR)** by raising the threshold for the category so that English and Welsh wine can benefit as other small alcohol businesses.
- introduce an English and Welsh **cellar door duty relief scheme** modelled on the Australian scheme of the same name to drive sales and support tourism.

<u>Tourism</u>
Proposals which encourage domestic and international tourism, including:

- restoring **tax-free shopping for EU visitors**, visiting the UK
- introduce **arrivals duty-free** so that UK travellers can use their increased duty-free allowances in UK ports and airports rather than third country ones

<u>Export</u>
Flying the flag for quality British products

- export support to enable English and Welsh wine to step up to the next level in terms of international sales and new market penetration. Only with concrete and coordinated UK Government support will this be possible.

WineGB and our members

Wines of Great Britain (WineGB) is the national association for the English and Welsh wine industry. Our mission is to advance the interests of our 450+ members who represent the vast majority of the UK's productive hectarage, and establish Great Britain as one of the world's great quality and most sustainable wine regions. We are a relatively new sector. To enable the sector to mature, a sustained approach to developing our domestic sales, our tourism proposition, and our exports would be beneficial. This will ensure that sales continue to grow with production and that we can capitalise on the growing interest in our wines.

Two-thirds of our membership are small producers, making fewer than 10,000 bottles a year. They often sell directly to consumers through their cellar door and wider tourism offerings, as well as through local retail and hospitality. The largest 25 producers account for over 80% of total sales of GB wine. They continue to invest in growing their plantings and reach, building the domestic wine market in the UK, and driving our exports. The sector works collegially to drive growth through awareness. Larger companies contribute through investment in UK and international marketing campaigns, building distribution networks, and driving demand through the on- and off-trade. Smaller producers, local vineyards and wineries contribute by creating a gathering point for communities and businesses while driving cellar door sales.

We are the fastest growing rural industry. English and Welsh wines are innovative and internationally recognised as a standard for high quality. We aim to capitalise on our largest harvest ever this year (double the previous largest in 2018) to draw further attention to our sector and our quality, premium products. This in turn we hope will drive sales, and accelerate our growth, which in turn is helping level up agricultural communities through the provision of highly skilled, sustainable and increasingly high-tech jobs and ancillary requirements.

It is a success story that has shown extraordinary growth and development in the last decade, as a result of significant investment. This growth is projected to continue in years to come if the market conditions continue on their current trajectory and if Government policy enables it to happen.

UK wine's future prospects

As a sector, English and Welsh wine has doubled in size from 5.3 million bottles produced and sold in 2017 to 12.2 million in 2022. The 2023 wine harvest is the largest ever recorded in Britain with an estimated 20 to 22 million bottles of wine in production. UK wine production is projected to consistently reach an estimated 25 million bottles a year by 2030[1].

There has been nearly a 75% growth in vines planted in just five years with 4,300 hectares (over 10,500 acres) currently under vine in England and Wales. This is

[1] WineGB Industry Report 2022- 2023

projected, based on our current sales to production ratio, to yield nearly 29 to 30 million bottle sales by 2032.[2]. That is over a thousand hectares more planted then there was in 2018. In the coming decade, it is estimated that this could double to over 9,000 hectares under vine if the economic conditions are right.

There are considerable opportunities for growing our exports given that in 2022, Champagne produced 325.5 million bottles of which 57.5% were exported while corresponding UK exports (which went to over 30 countries) accounted for just 4% of our sales in 2021.

At home, the sparkling wine-drinking population in the UK has grown since 2019. The category has an additional 2.2 million annual sparkling wine drinkers and a further 2.5 million monthly drinkers[3]. Here, English and Welsh sparkling wine also takes market share from Champagne and other sparkling wines with the category showing an increase in sales from 526,900 9-litre cases sold in 2021 to 641,600 sold in 2022[4].

Equally still wines are a growing and thriving sector, with a third of the market share. Pinot Noir and Chardonnay have a strong representation in the UK and internationally, and the recognition of Bacchus is growing as a still category leader with 8% of market. Across the country there is a greater emphasis on heritage grapes, as well as the more climate-change-resilient PIWIs. This diversity demonstrates that there is depth and innovation in the sector. The varieties and the regional attraction act to draw a wider range of people to explore the sector all the way from Cornwall to Wales past Essex, much of Hampshire and the South East, even towards Yorkshire.

The cultivation and production of inbound and outbound wine tourism is a key driver in local economies where our members operate, with a recent report[5] for just one of those regions (Sussex) estimating that by 2040, investment in the local economy by vineyards operating visitor attractions will be worth considerably more than £250 million and provide close to 4,000 new jobs. These figures will be emulated in other counties in the South East, and a lesser degree to the wine producing regions in the South West, Wales, the Midlands, and the North.

Why we are making this submission?

The growth of the UK wine industry comes against a background of specific and considerable challenges, which are a consequence of being the newest wine category in the global world of wine.

The sector produces premium wine and sparkling wine products, which means, amongst others, our costs and overheads are far higher than those experienced by our competitors i.e. long-established wine producers in Europe, Africa,

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[2] 2023 Harvest Report – The Big One, WineGB and Stephen Skelton MW, December 2023
[3] United Kingdom Sparkling Wine Landscapes 2023, Wine Intelligence (a division of IWSR)
[4] *ibid*. page 15
[5] Sussex wine tourism – A plan for growth, Sussex Modern (the wine tourism development agency for Sussex)

Australia, New Zealand and the Americas. For example, the yields from our vines keep improving in quality and quantity, but still lag between 30% to 50% behind that of France and Spain, meaning that every bunch of grapes costs significantly more to produce.

At the same time our members are, for example, also investing heavily in core plant machinery, bottling lines, and other necessary infrastructure. They are working to set up both national, and where possible, international distribution networks, while spending on marketing and PR required to create, rather than maintain, new markets for their products both in the UK and overseas.

UK wine producers make and sell premium products which means that production costs for our wines and sparkling wines are significantly higher. The upshot is that they are more constrained in making the breakthroughs needed to build new markets, sell their premium products, and keep successfully growing.

The UK wine sector is a UK agriculture success story. One that the UK Government itself acknowledges as "*Britain's fastest-growing agricultural sector, employing around 2,300 people full time with a predicted 50% growth in jobs by 2025*"[6].

Nevertheless, for UK wine producers to remain so in the current global climate we need all the help we can get from the UK Government. It is therefore essential to seize the moment and cultivate our incredible, internationally award-winning still and sparkling wines now that the world is waking up to their quality.

To do this, and more than any other native alcohol beverage category in the UK, at this point of acceleration, we need Government's active support in a number of areas which we will outline in this submission.

WineGB's ask of the UK Government for Budget 2024

A fairer tax regime – addressing the competitive disadvantage for wine

Excise duty on wine

Prior to 1st August 2023, the UK had the third highest rate of excise tax (per 750ml bottle at an ABV of 13%) for still wine and the second highest for sparkling wine in Europe. Only Ireland and Finland had higher excise duty for still wines (€3.19 and €3.16 respectively) compared to the UK's £2.28, While only Ireland's was higher for sparkling wine at €6.37 compared to an excise rate of £2.92 in the UK[7].

[6] "English Sparkling Wine makers raise a glass to new opportunities", Department for Environment, Food & Rural Affairs, December 2023.
[7] Irish Wine Market Report 2022, Drinks Ireland, September 2023.

As stated in the introduction to this submission, the UK is one of the few wine (still and sparkling) producing countries in Europe that levies excise on home grown and produced products. 10 European countries apply no excise duty on domestically produced sparkling wines, while France only applied a rate of €0.07 in 2022[8]. Fifteen applied no excise duty on domestically produced still wines, with France applying a rate of €0.03[9]. This is the reality of the 'level playing' field upon which British wine has to compete.

On 1st August 2023 the UK introduced significant changes to the excise duty regime which impacted, both in terms of the scale of the duty increase and the administrative and financial burden of changing the way excise duty is calculated, still and sparkling wines the hardest of all the alcohol beverage categories.

We shared the Government's ambition to simplify the duty system. However, the changes introduced complexity through a number of ways. The public health approaches chose the bluntest untargeted instrument that assumes the higher an ABV the higher the potential of risk, rather than real-life use of serves and measurement through units. As a result, the changes disproportionately target wine while simultaneously ignoring the significant and mainly positive public health trends of consumers drinking less but better-quality alcohol products. Alcohol consumption has fallen by 15% over the last 15 years and four in five consumers are drinking within the CMO's low risk guidelines or not at all, with a small minority drinking at high risk[10].

Nonetheless, the duty increases proposed were the largest seen in almost 50 years, and while a short-term freeze was announced at last year's Autumn Statement, it leaves open the possibility of another duty increase in August of this year. In the cost of living crisis that most UK households are currently experiencing, these wine duty increases, together with inflation, are contributing to depressed demand for our members' products and also contributing to a reduction in Government revenue[11].

Given this, and given the inflationary challenges both our members and the consumer are experiencing, we would ask that the Government consider a cut in excise duty for UK wines in the Spring Budget as a means of stimulating sales, which in turn could deliver a knock-on increase in collected excise duty. At the very least we hope that the Government will provide a commitment that our sector will not have to face a further excise duty hike in August.

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[8] Austria, Bulgaria, Croatia, Cyprus, Greece, Italy, Luxembourg, Portugal, Slovenia and Spain, Irish Wine Market Report 2022, Drinks Ireland, September 2023.

[9] Austria, Bulgaria, Croatia, Cyprus, Czechia, Germany, Greece, Hungary, Italy, Luxembourg, Portugal, Romania, Slovakia, Slovenia and Spain, *Ibid.*

[10] Portman Group UK Alcohol Fact summary of UK alcohol trends September 2023 – this draws on secondary data from a number of sources including the Health Survey for England and the World Health Organisation.

[11] According to HMRC data, Exchequer duty receipts for wine fell by 8% between September and November 2023.

The other notable change, which was introduced last August, was about how alcohol duty is to be calculated. While a temporary easement was put in place on its application to wines between 11.5% and 14.5% ABV (which account for 80% by volume of all still and sparkling wine sales in the UK) until February 2025, after this date alcohol duty for all type wines will be expected to be calculate based on the amount of pure alcohol in a product with different duty being applied for every additional 0.5% of ABV. The amount of duty will increase exponentially for wines depending on the alcoholic strength of a product.

For still and sparkling wines between 11.5% and 14.5% ABV this means seven different excise duty rates with potentially 30 different payable amounts. This will have to be recalculated on an annual basis given that it is not possible, unlike with beer and cider, to make wine to a pre-determined strength. Its alcoholic content depends on various factors, including growing conditions and climate, in any particular year.

The administrative and financial burden that this will place on England and Wales' wine producers cannot be over-emphasised. Without the HMRC's digital system rolled out and tested in a real-life situation, it is highly problematic for producers to effectively and reliably pay the correct duty.

Small Producer Relief /UK Cellar Door Relief

WineGB has previously written to HM Treasury[12] on both *Small Producer Relief* and a proposal for *Cellar Door Relief* for UK wine producers. We would like to take this opportunity to reiterate both of these proposals and ask for their consideration in the forthcoming budget.

Small Producers' Relief

In the UK, Small Producer Relief (SPR) on Alcohol Duty is available on any product with an alcohol by volume (ABV) of less than 8.5%. In effect, this means it is available only to beer and cider producers. Generally, wine in the UK has an ABV of between 11% and 13.5%. This is what the UK consumer expects and what producers aim to achieve.

The international standards setter for wine is the *International Organisation of Vine and Wine* (OIV). Its rules state that wine cannot be made under 8.5% and still be called wine. English and Welsh wine is an OIV member[13] and for reasons of credibility, we are duty bound to consider and stick with their definition of wine.

WineGB believes that SPR should be adjusted to allow it to also apply to our specific category. As it stands, with the application of this scheme to drinks up to 8.5% ABV, beer and cider are favoured and provided with a competitive advantage against UK wine even when produced to very ABV high strengths. Wine is excluded even when produced at the lowest that technology enables. It

[12] WineGB letter to the Exchequer Secretary dated 9 October 2023.
[13] Having re-joined the organisation in 2021.

means that the number of units of pure alcohol in a pint can be far higher than in a glass of wine, often double, which does little to encourage desired public health effects.

As it stands today, if English and Welsh wines were even technically able to get the ABV of their products down to below the 8.5% required to avail of SPR, the quality of such products would be substandard and would fundamentally go against what the consumer expects from a British wine / sparkling wine product. It would considerably cut against the core of our sector's USP, making any such change highly detrimental to our growth (and ultimately it would likely reverse all of the gains made over the past twenty years).

The only way for small English and Welsh wine producers (the vast majority of wine producers in the UK) to be able to avail of SPR and remain competitive both at home and overseas, would be for category specific SPR thresholds to be adjusted upwards to allow it to also apply to the UK wine category.

Just as a reminder, a producer is eligible for SPR if:

- the products made in the previous production year contain 4,500 hectolitres or less of pure alcohol
- a producer reasonably expects that the products it makes in the current production year will contain 4,500 hectolitres or less of pure alcohol, and
- less than half of the total alcohol a producer produces in a production year is made under licence.

A significant proportion of small English and Welsh wine producers do not cross the upper limits of these thresholds. Denying them the relief that small cider and beer producers receive puts them at a significant competitive disadvantage vis-à-vis these commercial rivals. It also competitively disadvantages UK wine producers regarding their third country counterparts, given that as many as 15 European countries[14] pay no wine duty at all on any of their wine or sparkling wine products. Our members are not competing on a level playing field either at home or abroad and we would urge Government to assist them in whatever way they can, including regarding SPR and Cellar Door Sales Duty Relief.

Cellar door sales duty relief

As a new country in the new world of wine, English and Welsh producers have the opportunity to learn from our Australian, New Zealand and South African counterparts about how they have shaped, built and have had their sectors supported to encourage growth and develop markets at home and overseas.

An example of this is Australia, which provides an established model that supports local markets through a cellar door duty relief rebate system.

[14] See footnotes 13 and 14.

We estimate between 400-450 English and Welsh vineyards sell directly to consumers though wine tourism and visits to vineyards. This is called cellar door sales.

Taking the Australian cellar door duty relief scheme as a model we propose that there should be full relief from the excise duty payable on each bottle of wine sold from the actual premises of the producer/vineyard in England and Wales.

This proposal is aimed at encouraging investment in infrastructure, employment, and tourist facilities by vineyards and wineries, particularly medium and smaller sized producers. This scheme would permit producers to sell up to 100 HL[15] per year (roughly 13,350 bottles) to the public from their cellar door (i.e. the vineyard shop) to individuals present on site for personal consumption (i.e. not for resale).

A relief such as this will itself quickly generate revenue for the Treasury through supporting tourism and community spaces, creating a multiplier effect that helps to grow the rural economy in a sustainable and carbon friendly way.

Wine tourism is a recognised sector with **VisitBritain** and **VisitEngland**, and the growing importance of cellar door and vineyard experiences looks set to continue, with a recent VisitBritain survey suggesting 42% of inbound tourists would enjoy a visit to an English or Welsh winery.

Tourism is the most important route to market for English and Welsh wine producers who are not one of the 25 largest companies. Tourism can be a driver of sales and raiser of awareness of our diverse range of products. This, however, relies on visitors coming to our vineyards to gain the full experience. The more inducements that there are to attract visitors the more likely it is that they will visit.

Growth and development of the UK wine sector can be very positive for the rural economy and employment. We are, as already acknowledged by the UK Government[16], "*Britain's fastest-growing agricultural sector*". According to the 2021 South Downs National Park report[17], viticulture has 13 times higher GVA (Gross Value Add) to the economy than traditional cereal crops. In 2019, viticulture contributed £54 million GVA of which £24.5 million was directly from wine sales.

Australia's established model, if applied in the UK, would have a marginal immediate cost to the Treasury of a maximum of £15 million per year. The return, however, would drive sector awareness within the UK, which in turn could lead to more jobs, sales, and industry investment that would likely match or exceed the duty impact forfeited. This would also have a levelling up benefit in hard-pressed rural economies.

The Australian Government has provided considerable support to its winemakers through reliefs, advice, and associations. It has allowed them to build a market in

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[15] HPL: Hectolitres of Pure Alcohol
[16] See footnote 3.
[17] Viticulture Growth Impact Assessment, South Downs Nation Park Authority, 2021.

a relatively short period of time (1960s onwards) to the extent that they are the fifth largest wine producer and exporter in the world contributing AUD45.5 billion to the Australian Treasury each year[18].

While our ambitions are more appropriate for our stage in our growth, we believe the UK can learn from the Australian experience and can look to make similar progress in years to come. But this requires support from the UK Government. The Australian Wine Equalisation Tax allows producers to enjoy AUD350,000 rebate per year where there hasn't been a wholesale sale, such as cellar door sales or tastings. It is generally only payable if a producer is registered or required to be registered for goods and services tax - VAT.

Tourism

Proposals which encourage domestic and international tourism

Restore tax-free shopping for EU visitors / introduce arrivals duty-free.

As a sector, UK wine supports initiatives to restore tax-free shopping for EU visitors to the UK and introduce arrivals duty-free at the UK's ports and airports.

As a growing and dynamic part of the UK's agriculture sector, we believe that these proposals could make a positive contribution to the competitiveness of the domestic UK wine producers by exposing our produce to an expanded consumer base which in turn would have a positive impact on our members' commercial viability and their economic footprint.

These proposals aim to incentivise spending in the UK by two distinct sets of travellers. *Restoring tax-free shopping* would benefit, and therefore encourage, a significant increase in EU visitors to the UK and a corresponding increase in spending. While introducing *arrivals duty-free* would offer similar opportunities to UK travellers as it would enable them to undertake their duty-free shopping at their point of return to the UK, rather than in an overseas location in Europe, the Middle East, or Asia.

Restore tax-free shopping

Restoring tax-free shopping for EU nationals travelling to the UK has the potential to create a unique, new, £10 billion, shopping-led tourism market for Britain[19].

It is estimated that up to £5 billion of this would be on tax-free shopping and £5 billion spent on other goods and services such as hotels and restaurants, on travel, leisure, and cultural activities.

[18] For more detailed information on the Australian wine sector see here.
[19] Association of International Retail research

It is also estimated that restoring tax-free shopping for EU travellers and the new shopping-led experience this would generate could benefit the regions outside of Greater London more than is currently the case from tax-free shopping.

At the moment, around 80% of all spending on tax-free shopping, undertaken by those who can avail of it (i.e. non-EU visitors to the UK), takes place in London. It is believed that the regions (including the wine producing parts of the UK[20]) would gain disproportionately from increased EU visitor spending because:

- EU visitors are more likely to travel outside London than long haul visitors.
- most flights from UK regional airports are to EU destinations providing a series of EU visitor markets for each region to target and from which to encourage visits.
- EU visitors attracted by tax-free shopping are likely to make more visits to Britain then long-haul visitors who are either just visiting London or using London's airports as connection points to further destinations.

Introduce arrivals duty-free for UK travellers returning to the UK

As already stated, we believe that introducing arrivals duty-free could offer similar benefits to UK travellers as restoring tax-free shopping would for EU visitors. It would enable UK travellers to undertake their duty-free shopping at their point of return to the UK rather than in an overseas departure location in Europe, the Middle East, or Asia.

It would also allow UK retailers and their ports / airports partners to build a new stream of non-aviation / non-port revenue which is vital to the commercial sustainability of the UK's ports and airports.

Over 60 countries world-wide currently allow arrivals duty-free shopping. In Europe, arrivals duty-free exists in Norway and Switzerland. In these countries, arrivals duty-free sales are almost 100% displaced from third country airports. Arrivals duty-free relocates passenger spending from the point of departure to the point of arrival which would benefit UK travellers, UK retailers, and in the case of UK wine, we believe it would also be of benefit to UK producers given the importance of selling locally produced products, in particular in regional airports and the UK's ports.

As a sector, WineGB believes that both of these proposals could positively assist the UK's growing domestic wine sector. They would bring UK premium wine products to the attention of new categories of consumers (EU and many UK consumers) which could support domestic production of wines in a simple and straightforward way.

They would do this in a way that does not negatively impact on Government tax revenues by shifting sales from outside the country (departure airport / ports) to inside the country (arrivals airport / ports) and thus supporting British enterprise,

[20] List counties where wine is produced in GB

local jobs, and businesses. This would be in addition to the positive economic impact they would have on the UK's regional airports and ports, many of which are loss making.

Export support for English and Welsh wine
Flying the flag for quality British products

English and Welsh still and sparkling exports equate to roughly 4% of sales annually. Given the record harvest in 2023 and expected increases in supply of English and Welsh still and sparkling wines in the coming years, help for our industry from the UK Government, which focuses on exports and export markets, would be a game-changer.

A focused, collaborative effort partnering WineGB and the UK Government is needed to jumpstart and move English and Welsh wine exports to the next level. This is a very complex area for new and emerging businesses in a new product category that has little or no international recognition. If the UK wine sector is to grow and prosper so that it can make a meaningful contribution to the UK economy in the longer term, it will need the active support of the UK Government to get it there.

An example of a scheme that might be of assistance would be a showcase programme where English and Welsh still and sparkling wine brands are showcased by the UK Embassy network at high-end tasting events on an annual basis. This would need to be backed up by grant funding, export financing, and the organisation of physical distribution in conjunction with the event, so buyers in these cities can act quickly and easily if they wish to engage with the brands that are on display. No alcohol beverage category and no new wine region has established itself internationally in the last 50 or so years without this sort of Government supported approach and organisation.