



PUB APPG INQUIRY

SIBA WRITTEN EVIDENCE MAY 2021

ABOUT

The Society of Independent Brewers (SIBA) was established in 1980 to represent the growing number of independent breweries in the UK. Today SIBA has around 750 brewery members. SIBA's membership encompasses a broad range of brewers from very small nano-breweries to larger firms owning pubs, taprooms and shops. In 2019 our members produced 493 million pints, approximately 6% of the beer produced and consumed in the UK.

The vast majority of UK beer production is in the hands of four global breweries, which account for around 88% of the entire market. The balance in between is made up of other internationally owned brands and a number of large, regional 'family' brewers with substantial pub estates.

Small breweries in the UK employ about 6,000 full time equivalents and directly contribute around £270 million to GDP each year. The brewing sector as a whole is a major contributor to the Treasury, responsible for approximately 30% of overall alcohol receipts. Small breweries employ a considerable number of people and generate a disproportionate amount of Treasury revenue through other direct taxes as a result. They also contribute directly to local economies, local communities and are forces for good in the world. Forty percent of SIBA members operate their own pubs, in most cases with estates of fewer than 10 businesses.

The industry has been hit hard by the Covid-19 pandemic, with 200 million fewer pints of craft beer being produced last year with the enforced closure of pubs – representing 10 years of lost growth and a 34% fall in production.¹ In the last quarter of 2020, brewers experienced a 45% fall in sales during the critical Christmas period. Over the past year, we have seen breweries closing for good and more are on the verge of shutting.

¹ SIBA Survey January 2021 - <https://www.siba.co.uk/2021/02/12/200-million-fewer-pints-craft-beer-brewed-2020/>



INTRODUCTION

Pubs and the beer produced by thousands of UK brewers are intrinsically linked, with 7 out of 10 drinks bought in a pub being beer, 67% of the beer produced by SIBA members is placed in traditional casks which can only be served on draught, generally in pubs² – community pubs would be fundamentally poorer without the fresh, cask-conditioned beer which is their hallmark.

A significant number of pubs have long been closed to small breweries because of their landlords' business models and leases, leaving such pubs without access to the full range of beer that consumers demand. However, this problem has been significantly exacerbated by Covid-19, which has led global brewers to seek to lock every more "free" pubs into sole supply agreements, while many remaining vertically integrated brewer and pub companies are giving priority to their own beers over offering the wider choice that they previously provided. Both pubs and brewers have been decimated by the Covid-19 pandemic and it will take many years for them to recover. Covid-19 has dramatically altered the way that the pub sector operates and how each and every one of us can live our lives. For much of the past fifteen months we have not been able to meet in a pub or bar to enjoy a local beer with friends and family or celebrate those special occasions together.

With the closure of pubs, small independent brewers lost ten years of growth last year. Throughout the crisis they have not had access to the same level of support as the wider hospitality sector. While the economy has started to reopen in May, the future is still very uncertain and it will be many months yet for pubs and brewers to be able to operate profitably once more. Future Government policies, such as changes to Small Breweries' Relief (SBR), may put any fragile recovery at risk, while independent brewers continue to face restricted market access, tough trading conditions and the dominance of global beer brands.

There is a role for the Government and MPs to support the pubs and small brewery sector and help them to recover. SIBA recommends to the inquiry that the Government works to:

1. Provide Covid support to small breweries
2. Celebrate the role of pubs and beer with a Year of Cask and support the #CaskIsBack campaign
3. Support pubs through lower duty
4. Reverse the changes to Small Breweries' Relief
5. Encourage the offering of wider choice of beers in the on trade, especially locally sourced

² Craft Beer Report 2020 - <https://www.siba.co.uk/SIBA-British-Craft-Beer-Report-2020.pdf>



IMPACT OF COVID-19

The pandemic, along with the Government mandated closure of pubs, have had a detrimental and long lasting impact on small breweries and the community pubs they support. Small breweries saw a 34% fall in production last year, which represents 10 years of lost growth.

While the financial package of support from the Government has been significant, there have been limitations on its reach, scale and scope particularly given the restrictions imposed on the hospitality sector, the resilience of Covid-19 and the variations between devolved administrations. Small breweries have not received the same level of support as the wider hospitality sector, including business rates holidays and direct grants. Often they have had to rely on a postcode lottery of local authority discretionary grants. SIBA's survey has shown that only a third of small breweries in England have been able to access any support through the Local Restrictions Support Grants or Additional Restrictions Grants.³ Whilst wet-led pubs have seen some direct support, those who do not have viable outdoor space and cannot maintain social distancing will continue to be harmed until Covid restrictions are fully removed. This contrasts to the situation in Scotland, where the Scottish Government has introduced, with SIBA's support, a Brewers Support Fund worth up to £30,000 per small brewery.⁴

Because of this lack of support and reduction in sales, many small breweries have relied on loans, accruing on average £32,000 of debt each, which will need to be repaid. Some small breweries have closed their doors for good and others may not survive the reopening of the sector because their capital has been exhausted, they lack cash to resume production, and delays in getting paid. This means that expertise, local jobs and businesses as well as the range of beer will all be reduced.

There is a perception that the Government's approach during the pandemic has often appeared to favour larger chain businesses, such as supermarkets and larger hospitality companies, rather than small businesses such as breweries and community pubs. Whilst the VAT reduction to 5% and the Eat Out to Help Out schemes were a boost for the sector as a whole, they did not assist the community wet-led pubs that small breweries rely on as the scheme did not include alcoholic drinks.

While entrepreneurial pubs and small breweries who could set up shops, takeaway, drive throughs and home delivery, these have been impacted and constrained through a myriad of different and constantly changing Covid rules. Some could do none of these things because of space or licensing. In the latest lockdown measures takeaway drinks, which had become a lifeline for many small businesses, were curtailed while similar restrictions were not imposed on large supermarkets.

The sector also had to dispose of around 87 million pints of beer, with 6 million from small breweries, that could not be sold. While small breweries can claim back the duty element of this spoilt beer they did not receive any compensation for the materials, staff time or cost of production, further damaging their financial position. This disposal has had and will continue to leave a lasting psychological impression on landlords across the country. Landlords were for the first time in many cases authorised by breweries and by HMRC to dispose of this beer themselves throughout successive lockdowns.

³ SIBA Survey January 2021 - <https://www.siba.co.uk/2021/02/12/200-million-fewer-pints-craft-beer-brewed-2020/>

⁴ <https://findbusinesssupport.gov.scot/service/funding/brewers-support-fund>

Spoilt beer that had to be poured away also counted towards production volumes for the purposes of the Small Breweries' Relief (SBR) scheme. SBR enables small breweries to pay a proportionate amount of beer duty to the Treasury, but the amount a small brewery pays is based on the total production for the previous year. Spoilt beer, even if it never left the brewery and remained in duty suspense, in due course being destroyed, will count towards this year's production volume thereby penalising brewers who have borne the cost of first producing then destroying the beer. HMRC has refused to change the rules so that this can be excluded from production volumes or provide a tax relief for the cost of producing beer which had to be destroyed.

During the Covid crisis, the Government has also proposed changes to SBR which will have a negative impact on small breweries. In July 2020 the Treasury announced that the threshold for the 50% duty rate will be reduced from 5,000 hectolitres (approximately 900,000 pints and enough beer to supply 15 pubs for a year) to 2,100 hectolitres.⁵ This change is due to be introduced in January 2022 and could mean that 150 small breweries have to contribute up to an additional £44,000 per year to the Treasury.⁶ This places many local beers at further risk.

REOPENING

Community pubs, and the small breweries supporting them, face an uncertain future. While numerically around 80% of pubs are small businesses, 39% are subject to a traditional tie arrangement through the lease conditions, rendering a significant part of the market closed to small breweries. Many ostensibly free pubs are restricted by contract to buying from one company in exchange for a business loan or contracted supply and maintenance of their in-house dispense equipment.

This means that as pubs reopen, small brewers still face a constrained market place which is likely to have shrunk alongside Covid restrictions that will continue until at least the summer if not longer. Consumer confidence will also take a considerable amount of time to return.

With restrictions in place, a reduced capacity pub is likely to have a more limited range of products on sale, at least initially. They will also be fearful from the experience last year that new restrictions could be imposed by the Government at short notice, despite the intention that this roadmap is a linear one. This could mean that they favour some types of beers, such as those provided in kegs which have a potentially longer shelf life, to others, such as beer provided in cask. As SIBA members package most of their beers in casks and pub keg lines are not easily accessible to our members, this will put small breweries at a significant disadvantage.

Cash flow for brewers is tight as most operate on a just in time basis. Brewers will struggle to restore this cash flow to pay suppliers but also to compensate for the 30 day payment periods from customers. It can take 60 days or more for brewers to start up, brew, deliver beer to customers and then receive payment. When pubs reopened in July 2020, Global producers were able to provide replacement beer free of charge. Because of this, an expectation was 'set' amongst landlords that all producers were able to match this offer.

⁵ <https://questions-statements.parliament.uk/written-statements/detail/2020-07-21/HCWS400>

⁶ In January 2021, the Treasury [published](#) its technical consultation which outlines five new models, which could see small breweries in the worst case scenario contributing up to £44,000 extra per year, whereas breweries many times larger benefit up to £145,000.



Many small breweries were asked to do the same and we have had reports that some of those who were unable to do so, because of financial constraints, then lost future business with these venues. This is likely to be repeated this year.

In recent years some small breweries have created their own direct sales with three in four operating a shop, tap room or a visitor centre on the brewery site.⁷ Research by SIBA has shown that ‘tap yards’ (outdoor space at brewery taprooms) have been 73% busier in the last few weeks compared to 2019.⁸ These may provide a future avenue which could be supported and taprooms and craft breweries could play a role in the Government’s levelling up agenda. Studies in the USA have shown that the presence of craft breweries and taprooms are linked to greater investment and the revitalisation of neighbourhoods.⁹ In Buffalo in New York, they have adopted the term “beer-orientated development” to describe the pivotal role that craft beer can play in the local community.¹⁰

To encourage people to return to the pub and support small, and especially local breweries, SIBA in partnership with CAMRA, BII and Cask Marque, have launched a campaign to promote cask beer in pubs. Titled ‘Cask is back, so back Cask’ more information on how to support this campaign is available at www.siba.co.uk/CaskIsBack

RECOMMENDATIONS

SIBA would ask the MP Inquiry to consider the following recommendations that will allow the sector to recover from the Covid-19 pandemic, help to address some of the structural issues that exist and ensure that small breweries and community pubs have the opportunity to survive and thrive.

1. Provide Covid support to small breweries

Small brewers have not had access to the same level of support as the wider hospitality sector despite their main sales route being closed for the majority of the past year. To support small brewers the Chancellor should introduce a Brewers Support Fund as they have done in Scotland providing cash grants for small breweries. This will help ensure the survival of the local brewery and future choice of beers that might otherwise disappear for ever.

2. Celebrate beer and pubs by making 2022 the Year of Cask and for MPs to support the #CaskIsBack campaign

Consumer confidence will take time to return and we need to encourage people to feel safe in returning to the pubs and to enjoy cask beer. A national campaign to celebrate and change the way that cask beer is perceived like the one SIBA is running with other bodies call Cask Is Back (siba.co.uk/CaskIsBack) and encourage people to try it would help to restore confidence and recovery in the sector following Covid.

⁷ Craft Beer Report 2020 - <https://www.siba.co.uk/SIBA-British-Craft-Beer-Report-2020.pdf>

⁸ <https://www.siba.co.uk/2021/05/12/independent-brewery-tap-yards-new-beer-garden-breweries-busier-usual-pubs-unable-open-indoors-next-week/>

⁹ For example – Neil Reid, 2017, Urban Development Issues - <https://content.sciendo.com/view/journals/udi/57/1/article-p5.xml?language=de&result=9&rsk=8sSQvL>

¹⁰ Reid, N and Gaterell, J, 2017 Polymath, Craft Breweries and Economic Development: Local Geographies of Beer



3. Support pubs through lower duty

Duty is a significant part of the price of a pint. The Government can directly support cask beer, pubs and small breweries by introducing a lower rate of duty for draught beer. Such a scheme could allow the Government to lower tax on beer sold in pubs as compared to supermarkets and encourage people to visit the pub.

4. Reverse the changes to Small Breweries' Relief

SBR is responsible for the transformation of the beer industry in the UK. However the Government is imposing changes which will result in 150 small breweries having to contribute more to the Treasury, putting jobs and their businesses at risk. The Government should commit to reform above 5,000hl but not reducing relief for any brewery below this level.

5. Encourage the offering of wider choice of beers in the on trade, especially locally sourced

Small breweries offer a range of beer often transported in sustainable and reusable containers (casks) predominately to local community pubs within a local catchment area. However access for small brewers is restricted. There is a role for MPs to encourage the wider choice of beer in pubs to support local brewers and to expand consumer choice.