

Executive summary

Nog een rondje van de burenen: Verdiepend onderzoek gevolgen accijnsverhoging bier

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Based on the past, we can conclude that increases in excise duty do not lead to a proportional increase in treasury revenue. As a result of increased consumer prices, beer sales are decreasing and it is also cheaper for consumers in border areas to buy beer over the border. This means that beer sales have dropped sharply since the increase in excise duty on beer on 1 January 2009 and only 70 percent of the budgeted excise duty proceeds have been collected. After the increase in excise duty on beer on 1 January 2013, there has also been a drop in beer sales.

Those living in border areas have the impression that the price differences between countries have increased since this increase in the excise duty rate. The consumer study shows that increasing excise duty has led to an increase in beer purchases abroad and therefore indirectly to an increase of other purchases abroad. Moreover, based on a conservative calculation, the expectation is that the recent VAT and exercise duty increases on beer in 2013 will lead to a loss of 311 jobs, *i.e.* 84 jobs directly and 227 jobs indirectly.

Based on the sales performance in the first quarter, the expectation is that beer sales will be 3 percent lower than last year. In previous years the decline was usually 1 percent. This means that the increase in excise duty will result in less extra excise duty revenue than the government budgeted for (26 million euros instead of 39 million euros). Moreover, the Dutch government will have a shortfall due of 4.2 million euros from taxes and social security contributions as a result of the decline in employment and cross-border purchases by Dutch consumers have doubled. If this trend continues, excise duty and VAT revenues lost to Germany and Belgium as a consequence in 2013 will amount to approximately 76 million euros (40 million euros more than in 2011). The costs and benefits of the measure will therefore be negative for the Dutch government. It should be noted that the negative trends are not solely the result of the increase in excise duty (the VAT increase in October 2012 also played a role).

The Rutte II cabinet intends to increase the excise duty on alcoholic drinks from 1 January 2014. This excise duty increase follows an excise duty increase as of 1 January 2013. This report presents the findings of an in-depth study of the effects of the increase in the excise duty on beer. The study consists of three parts:

1. an analysis of the historical and current data for domestic beer sales;
2. a consumer survey among residents of border areas;
3. a calculation of the impact effects for the treasury and the economy.

Trends in beer sales after the beer excise duty increase in 2009

After the beer excise duty increase of 30 percent on 1 January 2009, sales went down by as much as 6 percent, while in previous and later years sales went down by 1 percent. Sales in the first quarter of 2009 were even 13 percent lower than a year earlier. Brewers in border areas are proportionally the most affected by the beer excise duty increase; the drop is 3 percentage points higher than for other breweries. Because the decrease in sales is highest in border areas, catering businesses and shopkeepers located in these areas are proportionally hit harder. An analysis performed by brewer Grolsch based on the Nielsen figures highlights the higher decline in postal code areas in the vicinity of the border compared to the rest of the Netherlands. A comparison between the first quarter of 2013 and the first quarter of 2012 shows that the highest discernable decline in volume is in Limburg and North Brabant. From the analysis of Grolsch based on the Nielsen figures it is clear that the decline in volume is respectively 3 and 1.8 percent lower than the national average for the Netherlands.

Trends in beer sales after the beer excise duty increase at the beginning of 2013

After the VAT increase on 1 October this year and the beer excise duty increase of 10 percent on 1 January this year, beer sales in the first quarter of 2013 were 5.6 percent lower than in the same quarter a year earlier. This cannot be explained by earlier trends, since in previous years (except for the beer excise duty increase in 2009) there was no downward trend in this quarter. Assuming a similar pattern as in 2009 after the previous beer excise duty increase, we believe it is likely that the percentage of decline on an annual basis in 2013 will be lower than in the first quarter. A scenario based on a similar pattern after the previous beer excise duty increase would mean the decline on an annual basis will be around 3 percent.

Cross-border beer purchases after the beer excise duty increase in 2013

In comparison with other European countries, the Netherlands has a relatively high excise duty rate. Compared with neighbouring countries Belgium and Germany, the rate in the Netherlands is almost two and even four times higher, respectively. This makes it attractive to residents of the Dutch border areas to buy beer abroad. From the consumer survey we performed, it is clear

that the increase in the excise duty rate has led to an increase in beer purchases abroad. More than 60 percent of the consumers in the Dutch border area with Belgium and more than 70 percent of the residents in the Dutch border area with Germany (who purchased beer abroad in the first quarter of 2013) say that they intend to purchase beer abroad more often if there is any further increase in the excise duty rates.

The majority of the residents of border areas are familiar with the beer excise duty increase on 1 January 2013. Consumers have the impression that the price differences between the countries have increased since this excise duty increase. The main reason for making cross-border beer purchases in 2013 is therefore the price. The fact that beer is cheaper in both Belgium and Germany has become a more important argument when compared with the survey that was carried out in 2011. Many consumers say that they bought more beer across the border in 2013. Respectively 22 percent and 26 percent of consumers in the Belgian and German border areas say that they will buy more beer across the border than before the beer excise duty increase.

Comparison study of cross-border beer purchases in 2011 and 2013

- The percentage of consumers who say that they will make cross-border purchases is the same in 2013 as it was in 2011. However, there is a sharp increase in how often people buy beer abroad.
- In 2013, in Belgium people purchase mainly speciality beer and in Germany mainly pilsner. If people purchase beer abroad, they usually do this in a supermarket. This trend is the same as in 2011.
- The percentage of Dutch brands that are purchased has increased slightly compared to 2011, particularly in Germany.
- The fact that beer is cheaper abroad became an even more important argument in 2013 for cross-border beer purchases.
- The proportion of consumers who shop for other foodstuffs besides beer abroad has remained about the same in 2013 compared to 2011. However, the proportion of people who shop for several days has increased slightly.

Consequences for the treasury and the economy

The past has shown that increasing beer excise duty rates does not lead to a proportional increase in beer excise duty revenues. Because products are taxed more heavily, consumers are indeed inclined to purchase less and/or choose to purchase the product across the border more often. Moreover, in October 2012 the VAT rate was also increased. Because VAT is also levied on excise duty, both these increases reinforce each other and the extra tax on beer is even higher. This is also called the multiplier effect. Based on sales data from the first quarter of 2013, we expect that the additional excise duty revenues this year will only amount to 26 million euros instead of 39 million euros (as included in the tax plan).

In addition, the extra taxes on beer have a number of negative consequences for the economy. We expect that the recent VAT and beer excise duty

increases will lead to the loss of 84 direct jobs (in breweries), 134 indirect jobs (at suppliers) and 93 jobs in the retail sector. In total, we estimate the loss of employment at 311 jobs. This loss of jobs means a total cost of 4.2 million euros in lost income tax and social contributions for the Dutch government. In addition, due to the increase in price differences with Belgium and Germany, the cross-border beer purchases in the first quarter of 2013 doubled compared to 2011. If this trend continues, the resulting excise duty and VAT revenues that are lost to Germany and Belgium in 2013 will be about 40 million euros higher than in 2013.

Increase in excise duty revenue 2013	Costs excise duty increase 2013
<ul style="list-style-type: none"> The VAT increase of October 2012 and the excise duty increase of 2013 will cause beer sales to decline by 3 percent. As a result, the extra excise duty revenue will be 13 million euros less than budgeted (26 million euros instead of 39 million euros). 	<ul style="list-style-type: none"> A decrease in beer sales will result in the loss of 311 jobs. This is a conservative estimate that does not include the impact in the catering industry. These 311 jobs provide an annual contribution of 11.3 million euros in added value to the Gross Domestic Profit (GDP).
	<ul style="list-style-type: none"> Due to a decline in employment (311 jobs in our conservative estimate) this will produce a shortfall for the government of 4.2 million euros in social security contributions and income contributions and income tax.
	<ul style="list-style-type: none"> Cross-border purchases of beer by Dutch consumers have doubled compared to 2011. If this trend continues, over 2013 76 million euros in excise duty and VAT revenues will ultimately be lost to Germany and Belgium (40 million euros more than in 2011).

The above costs and benefits are negative for the government. However, it is true that these negative effects are not solely the result of the excise duty increase (the VAT increase in October 2012 also plays a role). On the other hand, our assumptions in the calculations of lost government revenue are based on conservative estimates, which could mean that the actual loss of government revenue may be even higher. The effects of job losses in the catering branch and illegal imports of beer are not included in our calculations. We have also not included the costs of extra benefits due to increased unemployment. Further, we note that those people who make cross-border beer purchases also often make other purchases, which means that the Dutch treasury is also missing out on VAT and sales tax. This effect is also not included in our calculations. We expect that the consequences of a beer excise duty increase in 2014 will affect the retail sector in particular, where the excise duty makes up a relatively large part of the sales price. It is our expectation that further increases in excise duty will lead to more cross-border beer purchases and substantial job losses.

For more information about this study, please contact us.

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