

22,500 jobs at risk in drinks sector as pubs on track for 50% decline in business for the remainder of 2020

Economist Anthony Foley authors report on impact of Covid-19 on the drinks industry and analyses the effect of a reduced VAT rate on on-trade alcohol sales

Report concludes that consumer demand will be lower after lockdown due to higher unemployment and reduced earnings while it will likely be 2023 before we reach pre-Covid labour market conditions

LVA, VFI and Ibec representative group Drinks Ireland have convened to call for a temporary reduction in the VAT rate on alcohol sales in pubs to *'support a 5,000-strong network of nationwide businesses that will struggle in the short-term'*

Report finds that most bars will reopen with only 40% of their customers, indefinitely

The *'Reduce VAT on On-Trade Alcohol'* report was published as part of the *'Protect our Pubs'* campaign to highlight the role pubs play in communities and the loss should some never reopen

Economist Tony Foley: *'Our most optimistic market expectations for the second half of 2020 are that on-licence alcohol sales will be at most 50% of what is usual'*

'Even if pubs regain half their normal capacity by the end of 2020, which is an optimistic scenario, **as many as 22,500 jobs could be permanently lost**, not to mention countless more in supporting trades like catering, security, and entertainment,' according to a report authored by DCU Economist Anthony Foley published today (Monday).

The report, commissioned by the Licensed Vintners Association (LVA), the Vintners Federation of Ireland (VFI) and Ibec representative group Drinks Ireland, as part of the 'Protect our Pubs' campaign, states that **on-trade pub alcohol sales will decline by 50% or more for the second half of 2020** and this is 'our most optimistic market expectation,' said economist Anthony Foley.

This week, one third of Dublin pubs remain closed. Outside of Dublin, over 60% of pubs remain closed – small businesses in our cities, towns and villages. For the pubs that have, or intend to reopen over the coming weeks, Government guidelines will mean a significant change in how they operate with reduced capacity and time-limits on customer visits.

A recent LVA/VFI report outlined the stark impact on capacity of operating under social distancing guidelines. When applied in any 100m² area in an on-licensed premises, standing capacity will diminish to 12.5%, while seating capacity is reduced to 34% of pre-crisis levels – 66% of capacity is wiped out.

The report states that over 50,000 people are employed in the drinks industry. It finds that of the 19,205 businesses in the hospitality sector (pubs, hotels, restaurants), 96.5% of these employ less than 50 persons meaning the sector is dominated by small businesses – businesses that are extremely exposed and at risk of shedding half their employment capacity.

The vulnerability of pubs has been evident over the course of the past decade – analysis of Revenue figures show that in the period between 2005 and 2018, 1,535 or nearly 20% of rural pubs closed as many were forced to shut up shop during the recession. This is a trend we cannot afford to see re-emerge.

The solution

The LVA, VFI and Drinks Ireland is calling for a temporary reduction in the hospitality VAT rate; and extending it to apply to alcohol sales in the on-trade (pubs and bars), until 31 December 2020 as part of the July stimulus package promised by Government. The measure is being sought to support pubs – 5,000 businesses nationwide – who will struggle in the short term until they can resume operating at increasing levels of capacity in 2021 and beyond.

According to detailed analysis contained in the report, **the cost of reducing the likely second half 2020 on-licence alcohol sales to 9% VAT from 23% VAT is €143 million.** An amended European Commission directive makes it possible to extend and apply a lower VAT rate on on-trade alcohol in Ireland – a fact unknown to many who believe it may be disallowed under EU VAT Directives.

EU and UK

Such a measure would be in line with other EU countries like Spain, Italy and Cyprus, which are using temporary reductions in VAT to provide immediate support to their drinks, hospitality, and tourism sectors during the Covid-19 crisis. In the UK, a lower VAT rate for the tourism sector – including pubs, restaurants and hotels – is an option currently being considered. Measures are due to be announced later this week as part of their economic statement and fiscal stimulus.

COMMENTARY

DCU Economist and author of the 'Reduce VAT on On-Trade Alcohol' report said:

'We anticipate that economy-wide and hospitality-related levels of consumer demand will be lower after lockdown due to the higher level of unemployment and reduced earnings. It will likely be 2023 before we reach pre-Covid labour market conditions. Without doubt, Ireland's drinks, hospitality and tourism sectors have been among the worst impacted. Due to restrictions, there is almost zero tourism and reduced demand in our hospitality sector. This impacts our entire economy and so represents a sector that requires Government intervention.'

Commenting, Donall O'Keeffe, CEO, LVA said:

'Over one quarter of the alcohol revenues generated by the on-trade sector, including public houses and other licensed premises, is taken by Government and diverted from customers, staff, entrepreneurs and investment. This very large tax burden is not justifiable in the exceptional circumstances we are in faced with – a severe national and sectoral economic situation – caused by Covid-19. All businesses must adapt and adjust to the new reality which the drinks and hospitality industry has done. Now, Government and the Exchequer must adjust its tax expectations accordingly and support one of our key domestic industries.'

Padraig Cribben, Chief Executive, VFI said:

'The greatly worsened post-Covid commercial model – reduced physical capacity, demand and timed customer visits to the pub – puts thousands of jobs and businesses at permanent risk. Most bars will reopen with only 40% of their customers, indefinitely. Pubs closed for four months and are continuing to experience the harsh realities of the pandemic, taking the necessary precautions, and adapting accordingly. Government policy needs to adapt too. A reduction in the VAT on alcohol would deliver an immediate support to these businesses and instantly improve their commerciality, supporting the initial recovery phase and survival of pubs over the next few months as demand is reduced and costs increase. The alternative is many bars will never open again, and the pre-Covid employment and economic contributions will not be recovered.'

Patricia Callan, Director of Drinks Ireland said:

The recent government report '*Economic Considerations for Reinstating Economic Activity*' concluded that the accommodation and food sector (including pubs and restaurants) had a high vulnerability to permanent damage or output loss. We must act now and provide support to critical industries with ambitious policy decisions. Traditionally, a VAT cut would enable businesses to reduce prices and stimulate demand. In this case, we are seeking a temporary VAT cut on alcohol to support businesses – this type of policy measure is the direction we need to go. It will deliver immediate and tangible support for an industry that is a substantial economic contributor.

CONCLUSION

The '*Reduce VAT on On-Trade Alcohol*' report was published as part of the 'Protect our Pubs' campaign by LVA, VFI and Drinks Ireland which seeks to highlight the important social and cultural role that the drinks and hospitality industry play in our communities and to demonstrate the loss that would be felt should some pubs not reopen due to Covid-19.

[Download the report here](#) and follow the Protect our Pubs campaign at **#NewGovProtectourPubs**