

# **The Development and Economic Impact of Microbreweries in Ireland**

**A Report for the Independent Craft Brewers of Ireland**

**Final, August 2014**

**Bernard Feeney, Economic Consultant**

**([feenybernard@gmail.com](mailto:feenybernard@gmail.com))**

## **Table of Contents**

1. Introduction	1
2. Development of the Microbrewery Sector	2
3. Current Output and Future Potential	6
4. Economic Impact	8
5. Regulatory Barriers	13
6. Conclusions	19

## Executive Summary

- A significant increase in the number microbreweries occurred in the last two years. It is estimated that there are 33 microbreweries operating in Ireland, the majority of which are microbreweries engaged in own production. At least 17 other microbreweries are at development stage, with the majority expected to be in operation by end 2014, when the total number could rise to some 50 microbreweries.
- The output of craft beer by microbreweries amounted to some 49,000 hl in 2013. Based on trends to date, this will rise to 71,000hl in 2014. This contrasts with an equivalent figure of 26,000 in 2011 and 37,000 hl in 2012. These figures indicate that production of beer by microbreweries grew by 32% by volume in 2013 and is set to grow by at least 45% in 2014.
- The microbrewery production of 37,000 hl in 2012 represents 0.45% of the market. Given the strong growth in microbrewery production, this is likely to have increased to approximately 0.9% in 2014. Of the 37,000 hl produced by microbreweries in 2012, some 28,000 hl were sold in the domestic Irish market, indicating a microbrewery share of 0.6%. Again, this share is likely to have risen to approximately 1.2% by 2014.
- In 2013, craft brewers reached 7.8 percent volume of the total U.S. beer market, while the craft dollar share of the total U.S. beer market reached 14.3 percent in 2013. This points to the potential for Irish microbreweries to achieve a five-fold increase in market share in the longer term.
- It is estimated that at current (2014) production levels, microbreweries that are in operation are employing 153 persons in all: 93 persons on a full time regular basis, 38 on a part-time regular basis, and 22 persons on an occasional or seasonal basis. This is 116 persons on a full time equivalent (FTE) basis.
- Employment in craft brewing has almost doubled since 2011. At current rates of growth, a five-fold increase in production could be achieved in about six years. Even allowing for a decline in employment intensity, as firm size increases, the total direct workforce in micro-brewing could reach 500 within that time frame.
- The micro-brewing industry sources over half of its brewing ingredients by value domestically. Distribution is another source of local spin-off activity. Thus, there are significant downstream benefits for the agricultural and other sectors in Ireland. Indirect employment arising from micro-brewing is estimated at 119 persons. This means that every person employed in micro-brewing is matched by another in the wider economy that supplies the industry.

- Employment in the micro-brewing industry is very widely dispersed throughout the country. By end of 2014, there will be microbreweries in operation in 21 of the 26 counties.
- The micro brewing industry is expected to generate over €1m in income tax and PRSI receipts for the Exchequer in 2014. This rises to €2.8m when indirect and induced tax revenues are taken into account.
- The micro-brewing sector is very export focused. Irish craft beer is currently exported to 25 countries. Some 38% of microbreweries are already exporting, albeit many of them on a small scale as yet. Of the total production of 49,000 hl in 2013, an estimated 11,300 hl was exported, representing almost 23 % of the total.
- Domestic craft beer production supplies only a fraction of the demand for craft beer in Ireland. Importation of craft beers dominates. Although, this picture is changing as more and more Irish micro-breweries come on stream and focus initially on the domestic market, the scope for further import substitution is very large.
- The Irish pub is an important element in the tourist experience and the increasing retailing of craft beer in pubs is serving to enhance the tourism offer. Food festivals are also an important vehicle through which tourists gain access to Irish food and drink culture and steps need to be taken to ensure that craft beers producers can full participate in these events.
- As the craft beer offer in Ireland develops, the potential for specific “craft beer tourism” will increase. The evidence is that the development of a micro-brewery *cluster* is important for the success of such tourism. With the current rate of expansion of microbreweries, it is evident that brewery numbers will soon become sufficient for such clusters to be identified: Dublin, Cork, and Galway are already on this path.
- The output of the micro brewing industry is currently doubling every two years, so it has the potential to become a major element in the Irish drinks industry, with huge benefits to the economy.
- The industry is showing a healthy growth in start-up activity. The key challenge in this respect is to ensure that the failure rate is kept low and that these start-ups can achieve full utilisation of their plant capacities.
- The excise tax rebate is an essential support to micro-brewery start-ups. It would be made more effective if it were put on a non-rebate basis to improve the cash flow of new entrants.

- Changes in the regulatory environment to permit sales from brewery premises and at festivals would not only help the breweries, but also are a requirement if craft beers are to help the development of a specific food and drink culture in Ireland that is attractive to tourists.
- The current tax rebate is withdrawn in full once the brewery reaches 20,000 hl in annual production. This forms a very substantial barrier to the expansion of independent breweries in Ireland. It is also at odds with the best practice in other systems that involve a tapered withdrawal of the relief up to the EU mandated limit of 200,000hl. This tapered withdrawal not only affords firms the opportunity to grow to an economically effective size, but also involves a process whereby the support is withdrawn in a manner that is least disruptive to the firm's operations.
- There is a need to extend the ceiling to allow substantial head-room for small breweries to grow, together with a graduated withdrawal from 20,000 hl to the new limit.

## **1. Introduction**

This Study was prepared on behalf of the Independent Craft Brewers of Ireland. The purpose of the Study was to:

- Document the development of the micro-brewing industry In Ireland
- Assess the potential of the industry and the contribution that it is making and could make to the economy; and
- Analyse the regulatory barriers that hinder the achievement of that potential.

The study focused on the micro-brewing industry in the Republic of Ireland. As there are relatively little data available on the industry, a list of micro-breweries was developed and these were subject to a Survey. Of the 32 microbreweries contacted, 24 responded. The responding breweries were estimated to account for 86% of total Irish craft beer production in 2013. Data referenced in this Report are drawn from the Survey unless otherwise indicated.<sup>1</sup>

The Report is organised as follows: Section 2 summarises the recent development of the micro-brewing industry in Ireland and discusses some of the basic economics of the industry. The output, revenues and market share of the industry are described in Section 3. Section 4 assesses the impact of the micro-brewing industry on the economy as a whole. The regulatory barriers to further growth in micro-brewing are considered in Section5. Section 6 presents conclusions.

---

<sup>1</sup> A copy of the Survey Questionnaire is provided in Appendix 1.

## **2. Development of the Microbrewery Sector**

### **2.1 Number of Microbreweries**

Micro brewing comprises three different types of brewing enterprise:

- Microbreweries which produce beer on their own premises for sale off the premises;
- Brewpubs that are fully licensed public houses that brew their own beer on their premises; and
- Contracting beer companies who market and sell beer products produced by other breweries.

Throughout the report, these three categories are encompassed in the term 'microbrewery'. Some microbreweries that are in the process of establishing their own brewing plant go through an initial contracting phase before commencing production in their own right. Similarly, some microbreweries engage in both own production and contracting out.

The 1980s and 1990s saw an emergence of craft brewers in Ireland, many of which did not survive. The survivors from that era include the Carlow Brewing Company, the Porterhouse and the Franciscan Well. <sup>2</sup>

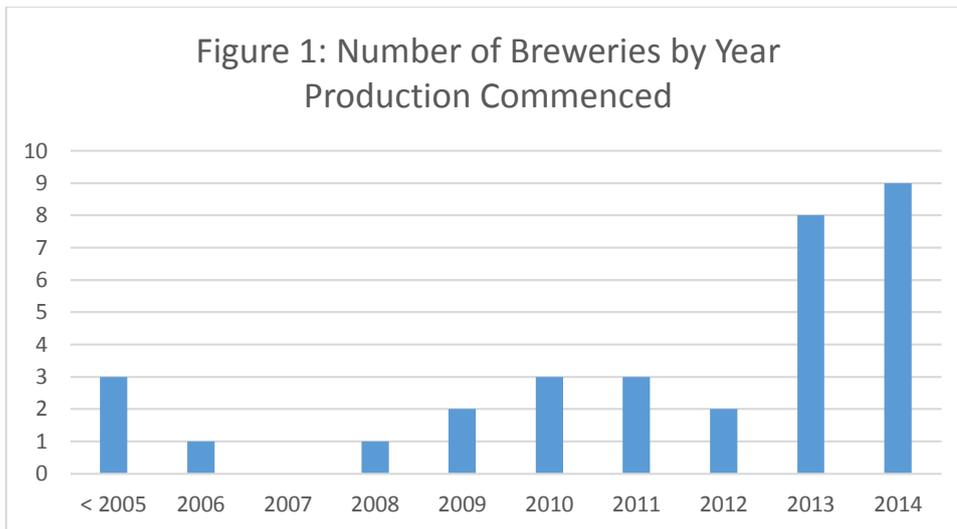
Subsequent to the introduction of the excise tax rebate in 2005, they were joined by the Galway Hooker brewing company in 2006 and later in the decade by the Galway Bay Brewery and Trouble Brewing. Thereafter, there was a gradual growth in the number of breweries.

However, the real expansion in microbreweries occurred in the last two years. At the time of writing in July 2014, it is estimated that there are 33 microbreweries operating in Ireland, the majority of which are microbreweries engaged in own production. Figure 1 shows that over half of the microbreweries have commenced operations since the beginning of 2013.

At least 17 other microbreweries are at development stage, with the majority expected to be in operation by end 2014, when the total number could rise to some 50 microbreweries.

---

<sup>2</sup> Messrs Maguire brewpub also dates from this period, but has undergone a name change to JWSweetman.



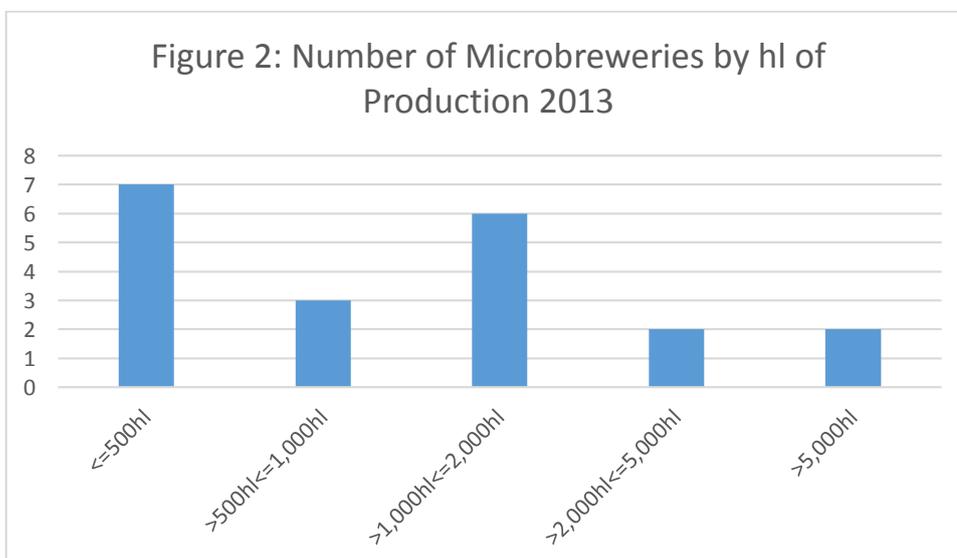
Source: Compiled by the author

Some major players are entering the market, including C&C who are constructing a brewery at Clonmel, County Waterford. Similarly, Molson Coors have invested in the Franciscan Well Brewery in Cork. It is clear that micro brewing in Ireland is gaining critical mass and has the potential to become a significant element of the food and drink industry in years to come, if current consumer taste trends persist and regulatory barriers are eased.

## 2.2 Structure of the Industry

### 2.2.1 Size Structure

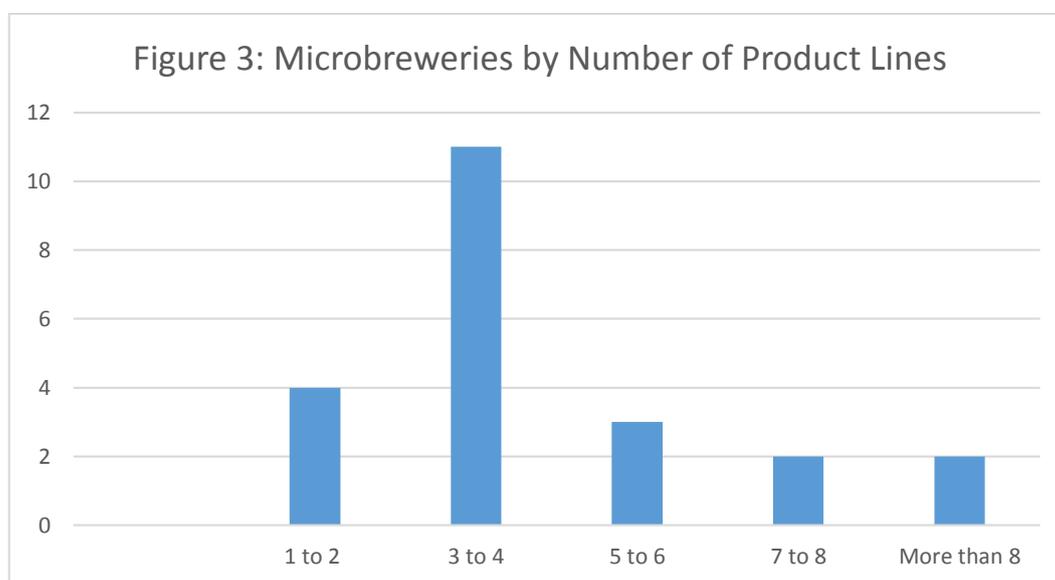
In general terms, microbreweries in Ireland are as yet relatively small in size. Of the 20 breweries in production in 2013, seven were producing less than 500 hectolitres (hl) per annum, while half were producing less than 1,000hl per annum. The small scale of activity for some breweries reflects in part their relative recent advent to the market. Two more established microbreweries were producing considerably in excess in 5,000hl per annum.



Source: Based on Survey

### 2.2.2 Product Lines

Similarly, with some exceptions, micro-breweries in Ireland produce few regular product lines, although most have additional seasonal or occasional offerings. The typical microbrewery has 3 to 4 product lines, with 7 of the twenty-two surveyed having 5 or more. Again, this reflects in part the fact that many microbreweries have only recently started production



Source: Survey: 22 microbreweries

### 2.2.3 Economies of Scale

Micro-brewing is a much more labour intensive activity than conventional large scale brewing. With regard to the brewing industry as a whole, the Irish Brewing Association (IBA) estimates that there are 1,506 full time employees in the industry producing 8.2m hl, or 184 full time employees per m hl.<sup>3</sup> At the current rate of employment, the equivalent figure for the micro-brewing industry would be 1,600.<sup>4</sup> This makes micro-brewing in Ireland over 8.5 times more labour intensive than macro-brewing.

An associated feature of the micro brewing industry is that it is subject to substantial economies of scale. As plant size increases, operational personnel do not increase in line. This is illustrated in the following table that relates employment in full time equivalents per 1000 hl of production to the level of output from the microbrewery. Very small breweries have high unit labour costs, which diminish somewhat as production levels increase.<sup>5</sup>

Microbreweries in the start-up phase are relatively labour intensive. While this has benefits for the economy as a whole, it means that they are subject to higher costs compared to macro-breweries. Even the largest microbreweries are five times more

<sup>3</sup> IBA. The Irish beer industry and its importance to the Irish economy IBA (undated)

<sup>4</sup> Estimated by the author based on Survey results

<sup>5</sup> The Society of Independent Brewers in the UK has identified a similar trend: see SIBA. Local Beer Report, 2013

employment intensive than their macro counterparts. This reduces the capacity of the microbreweries to compete. Microbreweries currently benefit from an excise tax rebate of 50%. This is a significant benefit to them in maintaining competitiveness in the face of their cost structure.

**Table 1: Employment Intensity of Production**

Brewery Annual Output (hl)	Employment per 1,000 hl produced
< 500	7.0
>500 <= 1,000	3.5
>1,000<=2,000	2.7
>2,000<=5,000	1.8
>5,000	1.0

Source: compiled from the Survey

**2.3.4 Product Pricing**

As is clear from the above analysis, microbreweries struggle to deliver product to the market at competitive prices. The craft beer consumer is influenced by factors such as quality, taste and an interest in diverse imbibing experiences rather than price. Because of these factors, craft beer is a premium-priced product that competes with macro-brews on non-price factors.

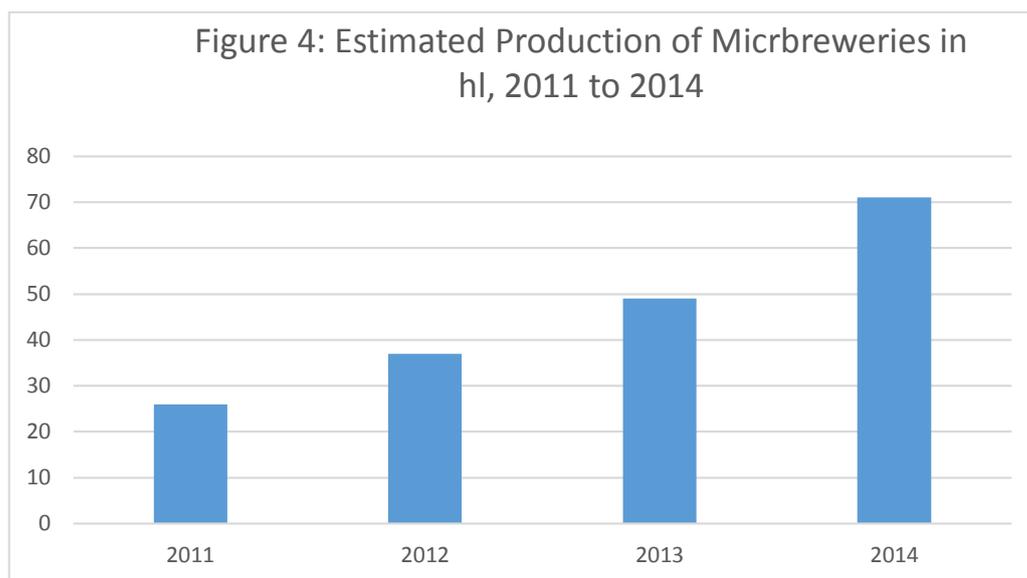
### 3. Current Output and Future Potential

#### 3.1 Current Output and Sales

The output of craft beer by microbreweries amounted to some 49,000 hl in 2013. Based on trends to date, this will rise to 71,000hl in 2014. This contrasts with an equivalent figure of 26,000 in 2011 and 37,000hl in 2012. <sup>6</sup> Figure 4 depicts the overall trends.

These figures indicate that annual production of beer by microbreweries grew by 32% by volume in 2013 and is set to grow by at least 45% in 2014.

The value of craft beer production in 2013 is estimated at €10.5m and a projected €15.1m for 2014. The 2014 figure represents an increase of 180% on 2011.



Source: Survey conducted by the author and An Bord Bia.

#### 3.2 Market Share of Microbreweries

The IBA reports that total beer production in Ireland amounted to 8,195 thousand hl in 2012. <sup>7</sup> The microbrewery production of 37 thousand hl in that year represents 0.45% of the market. Given the strong growth in microbrewery production, this is likely to have increased to approximately 0.9% in 2014.

Turning to the beer consumer market in Ireland, the IBA estimates this at 4,677 thousand hl for 2012. Of the 37 thousand hl produced by microbreweries in that year some 28 thousand hl were sold in the domestic Irish market, indicating a microbrewery share of 0.6%. Again, this share is likely to have risen to approximately 1.2% by 2014.

<sup>6</sup> The 2011 figure is sourced from: The Craft Brewing Industry in Ireland: Presentation for Bord Bia. First Step International. November 2012

<sup>7</sup> IBA

### **3.4 Future Growth Potential**

The immediate growth prospects for micro-brewing are substantial. The existing microbreweries in Ireland are operating at only 50% of their production capacity. This is partly because so many microbreweries are new to the market place and have yet to build up sales. However, it also reflects recent and current investment in capacity by a small number of more established breweries. The existing microbreweries in Ireland anticipate that they will increase their production to 109,000 hl in 2015. This does not take account of the output of additional microbreweries that will start production during 2014 and 2015. Achievement of targets of 109,000hl in 2015 and above is obviously contingent on a strong marketplace and a benign regulatory environment.

International experience provides an insight into the longer term growth potential of the micro brewing industry in Ireland. The industry's share of total beer consumption by volume at an estimated 1.2% by volume for 2014 falls well below the equivalent for other countries, For example, in New Zealand, the craft beer share is estimated at between 2 and 3%, although precise estimates are bedevilled by definitional problems.

However, it is the USA market shows the real growth potential. In 2013, craft brewers reached 7.8 percent volume of the total U.S. beer market, up from 6.5 percent the previous year, while the craft dollar share of the total U.S. beer market reached 14.3 percent in 2013, as retail dollar value from craft brewers was estimated at \$14.3 billion, up from \$11.9 billion in 2012.<sup>8</sup>

This points to the potential for microbreweries to achieve a five-fold increase in market share in the longer term.

---

<sup>8</sup> Brewers Association. State of the Industry. 2013.

## 4. Economic Impact

### 4.1 Direct Employment

The microbreweries provide employment in the brewing process, in marketing and distribution of the product, as well as in general administration. Because many breweries are small or in the start-up phase, they often employ personnel on a part-time basis. Equally, because demand is subject to variation, staff are also employed on an occasional basis.

It is estimated that at current (2014) production levels, microbreweries that are in operation are employing 153 persons in all: 93 persons on a full time regular basis, 38 on a part-time regular basis, and 22 persons on an occasional or seasonal basis. This is 116 persons on a full time equivalent (FTE) basis.<sup>9</sup> Employment in craft brewing has almost doubled since 2011. At current rates of growth, a five-fold increase in production could be achieved in about six years. Even allowing for a decline in employment intensity, as firm size increases, the total direct workforce in micro-brewing could reach 500 within that time frame.

### 4.2 Indirect and Induced Employment

The micro-brewing industry sources over half of its brewing ingredients by value domestically. Distribution is another source of local spin-off activity. Thus, there are significant downstream benefits for the agricultural and other sectors in Ireland.

By identifying the sectors from which the micro-brewing industry purchases and the use of the CSO's Input-Output tables, it is possible to estimate the wages and salaries to which these purchases give rise.<sup>10</sup> An indirect employment effect can then be calculated. This indirect employment was estimated at 119 persons. This means that every person employed in micro-brewing is matched by another in the wider economy that supplies the industry. Finally, the craft brewing labour force earns incomes that are spent on goods and services produced in Ireland. The production of these goods and services also gives rise to employment. This induced employment is estimated to amount to 44 persons in 2014. Table 2 summarises the employment created by the micro brewing industry in Ireland in 2014.

**Table 2: Employment in the Micro-brewing Industry in Ireland, 2014**

Category of Employment	Number of Persons Employed
Direct	116
Indirect	119
Induced	44
Total	278

Source: estimated by the author

<sup>9</sup> FTEs are estimated assuming that part-time is one half of full-time and occasional is one sixth.

<sup>10</sup> The CSO Input-Output Tables for 2010 were used

### 4.3 Regional Impact

Employment in the micro-brewing industry is very widely dispersed throughout the country. Table 3 depicts the current regional distribution.

**Table 3: Microbreweries by County, 2014**

County	Number of Microbreweries	County	Number of Microbreweries
Carlow	1	Kildare	2
Clare	1	Leitrim	1
Cork	7	Mayo	2
Donegal	2	Meath	1
Dublin	5	Offaly	1
Galway	4	Tipperary	1
Kerry	2	Waterford	2
		Wexford	1

Source: compiled by the author; refers to breweries in operation.

By end of 2014, there will be microbreweries in operation in 21 of the 26 counties. It is also worth noting that microbreweries are sited in rural as well as urban areas, which enhances the local employment effect.

### 4.4 Tax Revenue Benefits

While microbreweries benefit from a tax rebate, they still pay over substantial excise duties to the revenue commissioners. Based on an estimate of 38,000 hl produced and consumed in Ireland, it is estimated that microbreweries will pay the Revenue Commissioners some €1.6m in excise duties in respect of 2013 production, rising to €2.8m in 2014.<sup>11</sup>

In addition to the above, the wages that microbreweries pay out give rise to income tax and PRSI payments to the Exchequer. These arise from direct, indirect and induced employment. The anticipated income tax and PRSI which will be paid by the industry and its employees in respect of production in 2014 are set out in Table 3. The micro brewing industry is expected to generate over €1m in income tax and PRSI receipts for the Exchequer. This rises to €2.8m when indirect and induced tax and PRSI revenues are taken into account.<sup>12</sup>

The tax and PRSI revenues arising from the microbrewery industry at 2014 production levels at €2.8m equals the expected excise tax rebate in respect of 2014 production.

<sup>11</sup> Based on a 4.5% ABV content.

<sup>12</sup> This assumes that, at the current high rate of unemployment, additional employment in micro-brewing will reduce unemployment numbers by the same amount. The net expenditure gain to the Exchequer in terms of reduced social welfare payments has not been included in the above figures.

**Table 3: Summary of Anticipated Income Taxes and PRSI, 2014**

Category of Payment	Income Tax (€000)	PRSI (€000)	Total (€000)
Direct	443	609	1,052
Indirect	671	591	1,262
Induced	246	216	461
Total	1,360	1,416	2,776

Source: estimated by the author

#### 4.5 Contribution to Exports

Of the total microbrewery production of 49,000 hl in 2013, an estimated 11,300 hl was exported, representing 23 % of the total. This may be compared with an equivalent figure of 40% in 2011.<sup>13</sup> The decline in export proportion is due to the numbers of new breweries that have set up in the interim. These typically start on a small scale and have focus initially on the domestic market, where demand is very strong.

There is evidence, however, the micro-brewing sector is very export focused. Through the efforts of the Carlow Brewing Company and the Porterhouse in particular, Irish craft beer is currently exported to approximately 25 countries.

Some 38% of microbreweries are already exporting, albeit many of them on a small scale as yet. Of the 23 breweries that responded to this element of the Survey, all but two indicated that they would be exporting within three years. Exports of between 25 and 50% of total production are typically being targeted by firms in the sector.

This export orientation in what are very small firms is remarkable. It would appear from the evidence of the Survey that once a microbrewery's production exceeds some 2,500 hl per annum, they tend to engage in a significant exporting activity. The export potential of the sector is substantial, particularly as Irish beer has a distinctive appeal on foreign markets.

#### 4.6 Import Substitution

Despite the long term presence of a small number of micro-brewing firms, significant craft brewing activity has come to Ireland relatively late. This means, as has been demonstrated, that domestic production of craft beers represents a small proportion of total beer production and consumption in Ireland.

More importantly, domestic craft beer production supplies only a fraction of the demand for craft beer in Ireland. Importation of craft beers dominates. While precise figures are

<sup>13</sup> 2011 figure from Bord Bia survey.

not available, it is clear that Irish firms supply only a fraction of the domestic market. For example, research by Bord Bia indicates that foreign craft beers dominate the grocery multiple shelves and the on-trade offer, comprising approximately 90% on craft beers on offer.<sup>14</sup> Although, this picture is changing as more and more Irish micro-breweries come on stream and focus initially on the domestic market, the scope for further import substitution is very large.

## **Tourism**

Tourist expectations with regard to holiday experiences continue to rise and competition is intensifying. Fáilte Ireland's strategy is to differentiate Ireland from other destinations. An important component in any visitor experience is the quality and authenticity of food and drink offerings. In recognition of this fact, Fáilte Ireland made a strategic decision to embark on a collaborative approach to the development of food tourism in Ireland which led to the introduction of the National Food Tourism Implementation Framework 2011-2013 (the 'framework'). The overall aim of the framework was to "develop Irish food tourism by building on the strength of our food export market, the success of our drinks industry and the powerful blend of Ireland's renowned hospitality, unique culture and green natural environment."

Under the National Food Tourism Implementation Framework, the vision for food tourism was defined as being: 'Ireland will be recognised by visitors for the availability, quality and value of our local and regional food experiences which evokes a unique sense of place, culture and hospitality'.

Craft beer with its emphasis on quality and local production has the potential to contribute to this sense of place, culture and hospitality. Fáilte Ireland has recognised craft brewing as a major international food tourism trend: "It's all about craft beers and ciders at the minute. Craft distilling continues to expand, delivering small-batch beers to consumers eager for unique, artisan and "authentic" libations. These offerings will influence menus as local beers and ciders are matched with food to enrich the taste experience."<sup>15</sup>

The Irish pub is an important element in the tourist experience and the increasing retailing of craft beer in pubs is serving to enhance the tourism offer. Food festivals are also an important vehicle through which tourists gain access to Irish food and drink culture and steps need to be taken to ensure that craft beer producers can fully participate in these events.

Finally, as the craft beer offer in Ireland develops, the potential for specific "craft beer tourism" will increase. In North America in particular, craft beer tourism has developed in locations where there is a significant concentration of breweries, such as British Columbia and Oregon. The evidence is that the development of a micro-brewery *cluster* is important for the success of such tourism. With the current rate of expansion of microbreweries, it is evident that brewery numbers will soon become sufficient for such clusters to be identified: Dublin, Cork, and Galway are already on this path.

---

<sup>14</sup> Communication from An Bord Bia.

<sup>15</sup> <http://www.failteireland.ie/In-Your-Sector/Food-Tourism-in-Ireland/Food-trends-in-Ireland.aspx#sthash.PFe6JV0B.dpuf>

#### **4.8 Health and Social Responsibility**

There is a consumer trend which increasingly views beer as a drink capable of great variety and interest. There is also a growing consumer trend towards quality rather than quantity in beer consumption. This has been partly prompted by drink driving legislation and greater awareness of the negative health impacts of excessive consumption. Social responsibility in alcohol consumption has received greater emphasis.

Craft beer production emphasises quality and flavour. Reflecting this, craft beer tends to be priced at a premium and so is not associated with binge drinking.

## **5. Regulatory Barriers**

### **5.1 Overview**

The development of the craft brewing industry in Ireland is bringing significant benefits to the Irish economy. Craft brewing is an employment intensive activity that is becoming nationwide and will provide much needed employment locally. It makes use of Irish inputs which creates employment spin-offs in the wider economy. It continues to be a highly taxed commodity, contributing substantial excise duty revenues to the Exchequer. The substantial direct and indirect employment it creates is producing significant tax and social insurance contributions to the Exchequer. Output from the micro brewing industry is currently doubling every two years, so it has the potential to become a major element in the Irish drinks industry, with huge benefits to the economy, through increased exports. It has a developing role in tourism and can help to encourage more moderate drinking, with consequent health benefits.

The industry is showing a healthy growth in start-up activity. The key challenge in this respect is to ensure that the failure level is low and that these start-ups can achieve full utilisation of their plant capacities.

The other feature of the industry is that only two microbreweries are operating at a substantial scale. These are also the two major exporting breweries. It is important that these breweries, and others that will advance to their level of production, be encouraged to grow to a scale that permits them to compete more easily on export markets.

### **5.2 Barriers to Development**

Against this background, microbreweries were asked to indicate the major regulatory barriers that inhibit their development. A common response was to first identify the current excise tax rebate as an absolute requirement if the industry is to survive let alone prosper. A typical comment was: 'without this, there would be no craft beer'

Turning to barriers to development, Table 4 lists their responses in order of frequency of mention. The concerns of microbrewery owners centre on marketing and distribution issues on the one hand and tax and price issues on the other. The most common issue is that relating to restrictions on sale of beer to brewery visitors. This is a particular concern among the smaller breweries, which face marketing and distribution challenges. Relaxation of licensing laws to allow sales at farmers' markets and festivals is also a concern of the smaller brewer. Tax and price issues are of relevance to microbreweries as a whole. The fact that the current tax concession for microbreweries is on a rebate basis creates cash flow problems for all breweries. As the size distribution of breweries indicates (see Figure 2 above), the vast bulk of breweries are well below the ceiling for the tax rebate, so that it is easily determined in advance that annual production will remain below the ceiling. In these circumstances, it is not clear why the excise duty reduction could not be provided at point of release from bonded warehouses. For the microbreweries with high levels of production, the key concern was the 20,000 litre ceiling for the rebate and the fact that it is subject to complete withdrawal after that level is reached. Tax issues are further discussed below.

**Table 4: List of Actions on Regulatory Constraints**

- Allow direct selling from brewery
- Excise duty reduction on a non-rebate basis
- Raise the ceiling for the tax rebate above 20000 hl
- Reduction in excise duties and VAT rate
- Relaxation of licensing laws to allow sales at farmers' markets and festivals
- Requirement to state country of origin on beer labels
- Statutory minimum beer price
- Craft beer to be included in restaurant wine licences

Source: Survey

### **5.3 The Taxation of Beer in Ireland and the EU**

#### **5.3.1 Introduction**

This Section of the Report sets out the tax rates that apply to beer production and consumption in Ireland. Comparisons are made with the tax rates that apply in the rest of the European Union. The full tax rates that are imposed throughout the EU are first outlined. This is followed by an analysis of the reduced rates of duty that Member States of the EU may apply to the production of independent small breweries.

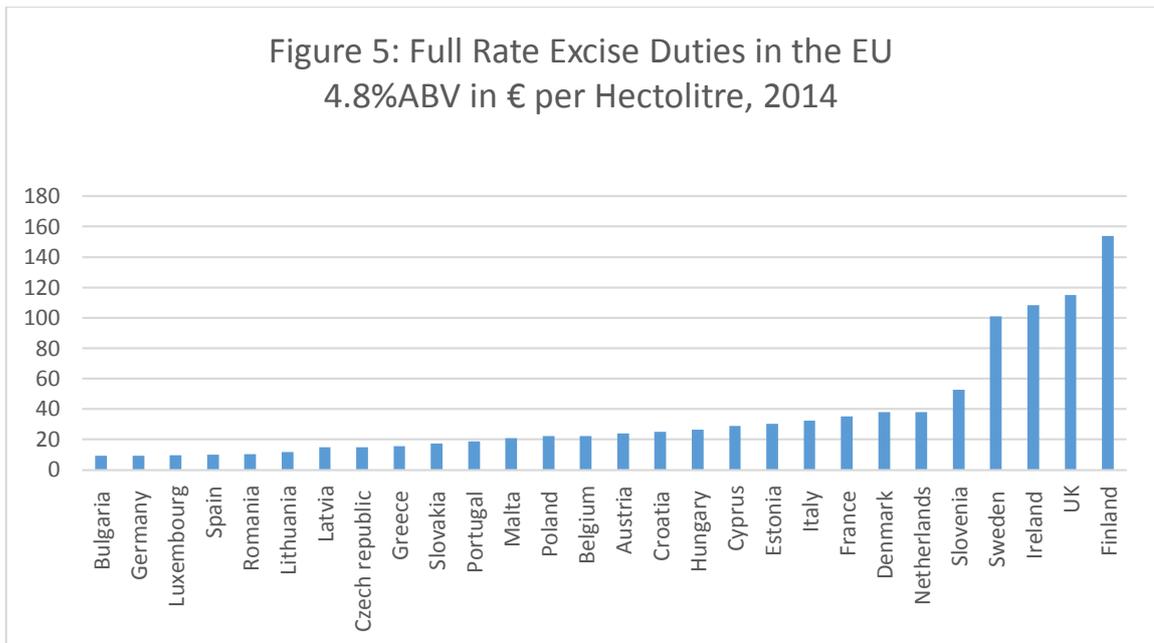
#### **5.3.2 An Overview of the General Taxation of Beer**

Beer production in Ireland is subject to both excise duties and Value Added Tax (VAT). Beer which has in excess of 1.2% alcohol by volume (ABV) is subject to excise duty which is struck at a rate in Euros per hectolitre (hl) per degree of alcohol of the finished product. Where the ABV content is in excess of 2.8%, the current (2014) excise duty rate is € 22.55 per hl per degree alcohol. This means that beer with an ABV of, say, 4.8% is subject to an excise duty of €108.24 per hl. In addition, VAT, at a rate of 23% is also levied. When these taxes are combined, over one-quarter of the retail price of beer is made up of tax. The excise duty rate in Ireland is over twelve times the minimum rate laid down in relevant EU legislation.<sup>16</sup>

These are very high tax rates by comparison with other EU countries. As may be seen from Figure 5 below, Irish excise duty rates are among the highest in the EU, exceeded only by those of the UK and Finland. Only Denmark, Finland and Sweden impose higher VAT rates.

---

<sup>16</sup> Directive 92/84/EEC



Source: compiled by the author using the European Commission’s Excise Duty Tables

The brewing industry in Ireland has an international reputation and is a major component of Irish manufacturing industry. Other countries, that have a strong brewing tradition, impose much lower taxes. Germany is a noteworthy case, with an excise duty rate less than one tenth that of Ireland and a VAT rate of only 19%.

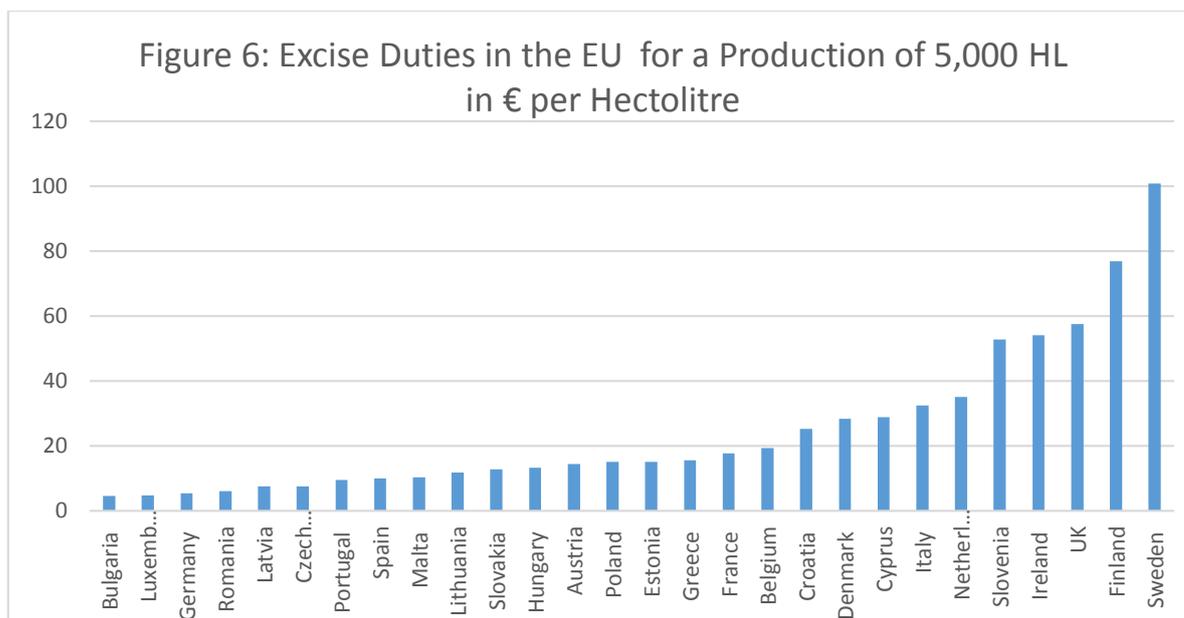
### 5.3.3 The Taxation of Independent Breweries

Under EU legislation, Member States may apply reduced rates of excise duty to the independent breweries whose annual production does not exceed 200,000 hl. A maximum reduction of 50% may be applied.<sup>17</sup>

Reduced rates of duty were not introduced into Ireland until January 2005. While a reduction of 50% was implemented, this relief was applied only to breweries with a production not exceeding 20,000 hl. This is a very low threshold by comparison with most other EU Member States. Of the 21 member states that introduced a relief, 13 currently allow relief up to the maximum production level of 200,000 hl, while 17 have a higher maximum than Ireland. Only Latvia, Hungary and Slovakia employ lower production maxima than Ireland. However, these are countries that impose standard excise duties that are only a fraction of those applying in Ireland

While the reduced rate of duty is a critical element in developing the craft brewing industry in Ireland, it does not by any means fully offset the burden of excise duties. If we consider start-up breweries producing up to 5,000 hl per annum, the relevant reduced excise duty rates are shown in Figure 6.

<sup>17</sup> Directive 92/83/EEC



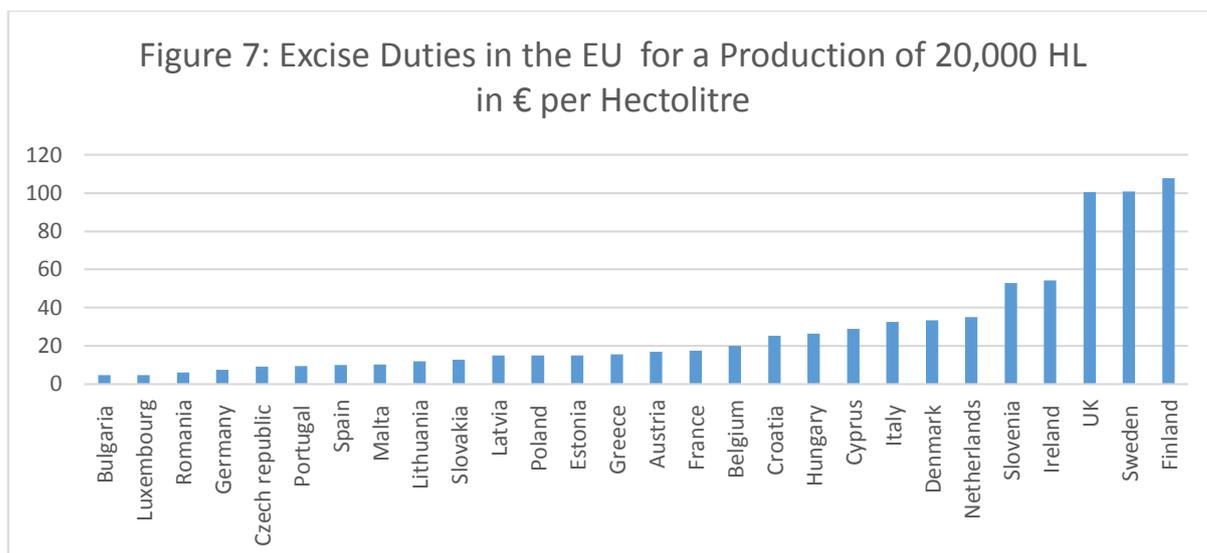
Source: compiled by the author using the European Commission's Excise Duty Tables

The reduced rate of duty imposed on independent breweries at this level of production is €54.12 per hl, which is still the fourth highest among EU countries. It is ten times the rate applying to start-ups in Germany, for example. For more mature independent breweries, producing, say, 20,000 hl, the reduced rate of duty is still €54.12, which remains the fourth highest in the EU, and some 7.5 times that of Germany (see Figure 7)

However, the major problem with the operation of the reduced rate in Ireland is the 20,000 threshold. An independent brewery in Ireland operating at this level could benefit to the tune of over €1m annually, if all of its production is goes to the domestic market. This is withdrawn in full once the threshold is exceeded.

This forms a very substantial barrier to the expansion of independent breweries in Ireland. As indicated above, a number of breweries have expanded their production levels so that they will shortly exceed the ceiling.

It is at odds with the best practice in other systems that involve a tapered withdrawal of the relief up to the EU mandated limit of 200,000hl. This tapered withdrawal not only affords firms the opportunity to grow to an economically effective size, but also involves a process whereby the support is withdrawn in a manner that is least disruptive to the firm's operations.



Source: compiled by the author using the European Commission's Excise Duty Tables

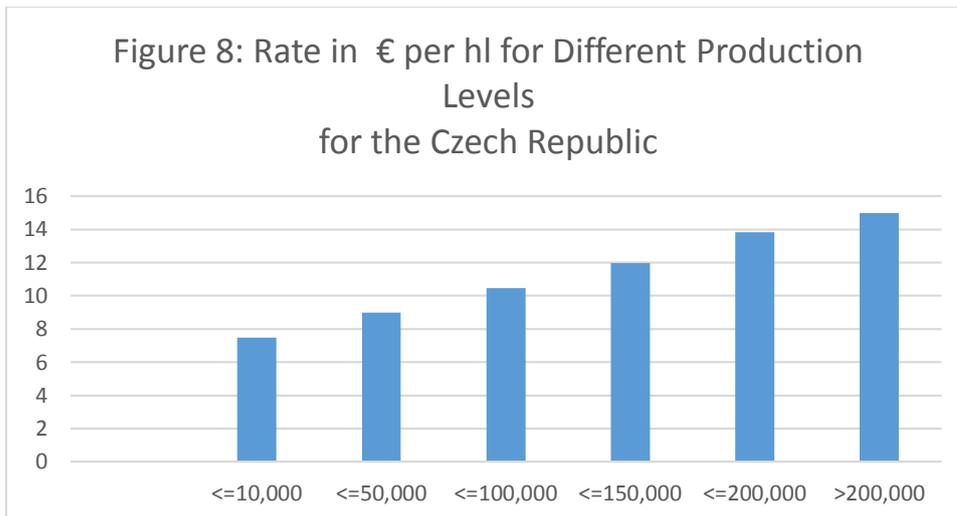
Table 5 presents a categorisation of schemes operating in the EU Member States and identifies the states that are operating different systems. Denmark, Belgium, Poland, Luxembourg and the Czech Republic all operate a scheme of tapered withdrawal up to the maximum of 200,000 hl.

**Table 5: Schemes Operated in other EU Member States**

Threshold Employed	Fixed Reduced Rate	Tapered Reduced Rate
200,000hl Maximum	Bulgaria, Greece, France, Malta, Netherlands, Portugal, Romania, Slovakia	Denmark, Belgium, Poland, Luxembourg, Czech Republic
< 200,000hl Maximum	Estonia, Ireland, Latvia, Hungary	UK, Finland, Austria, Germany

Source: compiled by the author using the European Commission's Excise Duty Tables

Figure 8 presents the details of the structure for the Czech Republic. It has very desirable features involving a gradual withdrawal of the rate concession, with a production volume of less than 10,000hl receiving the full 50% reduction, which is then gradually removed.



Source: compiled by the author using the European Commission's Excise Duty Tables

There is a clear need to reform the current rebate structure in a number of ways:

- Implement the concession on a non-rebate basis to improve the cash flow of new entrants in particular; and
- Extend the ceiling to allow substantial head-room for small breweries to grow, together with a graduated withdrawal from 20,000 hl to the new limit.

## **6. Conclusions**

### **Development of the Microbrewery Sector**

- A significant increase in the number microbreweries occurred in the last two years. It is estimated that there are 33 microbreweries operating in Ireland, the majority of which are microbreweries engaged in own production.
- At least 17 other microbreweries are at development stage, with the majority expected to be in operation by end 2014, when the total number could rise to some 50 microbreweries.
- Microbreweries in Ireland are as yet relatively small in size. Of the 20 breweries in production in 2013, nine were producing less than 500hl per annum, while just under half were producing less than 1,000hl per annum. Two more established microbreweries were producing considerably in excess in 5,000hl per annum.
- One of the features of the brewing industry is that it is subject to substantial economies of scale. As plant size increases, operational personnel do not increase in line. One of the challenges facing the micro-brewing industry in Ireland is to grow the size of firms to ensure competitiveness with competitor firms abroad.

### **Current Output and Future Potential**

- The output of craft beer by microbreweries amounted to some 49,000 hl in 2013. Based on trends to date, this will rise to 71,000hl in 2014. This contrasts with an equivalent figure of 26,000 in 2011 and 37,000 hl in 2012. These figures indicate that production of beer by microbreweries grew by 32% by volume in 2013 and is set to grow by at least 45% in 2014.
- The value of craft beer production in 2013 is estimated at €10.5m and a projected €15.1m for 2014. The 2014 figure represents an increase of 180% on 2011.
- The microbrewery production of 37,000 hl in 2012 represents 0.45% of the market. Given the strong growth in microbrewery production, this is likely to have increased to approximately 0.9% in 2014.
- Of the 37,000 hl produced by microbreweries in 2012, some 28,000 hl were sold in the domestic Irish market, indicating a microbrewery share of 0.6%. Again, this share is likely to have risen to approximately 1.2% by 2014.
- In 2013, craft brewers reached 7.8 percent volume of the total U.S. beer market, while the craft dollar share of the total U.S. beer market reached 14.3 percent in

2013. This points to the potential for Irish microbreweries to achieve a five-fold increase in market share in the longer term.

### **Economic Impact**

- It is estimated that at current (2014) production levels, microbreweries that are in operation are employing 153 persons in all: 93 persons on a full time regular basis, 38 on a part-time regular basis, and 22 persons on an occasional or seasonal basis. This is 116 persons on a full time equivalent (FTE) basis.
- Employment in craft brewing has almost doubled since 2011. At current rates of growth, a five-fold increase in production could be achieved in about six years. Even allowing for a decline in employment intensity, as firm size increases, the total direct workforce in micro-brewing could reach 500 within that time frame.
- Micro-brewing is a much more labour intensive activity than conventional large scale brewing. Per unit of output, micro-brewing in Ireland is over 8.5 times more labour intensive than macro-brewing.
- The micro-brewing industry sources over half of its brewing ingredients by value domestically. Distribution is another source of local spin-off activity. Thus, there are significant downstream benefits for the agricultural and other sectors in Ireland. Indirect employment arising from micro-brewing is estimated at 119 persons. This means that every person employed in micro-brewing is matched by another in the wider economy that supplies the industry.
- The craft brewing labour force earns incomes that are spent on goods and services produced in Ireland. The production of these goods and services also gives rise to employment. This induced employment is estimated to amount to 36 persons in 2014.
- Employment in the micro-brewing industry is very widely dispersed throughout the country. By end of 2014, there will be microbreweries in operation in 21 of the 26 counties.
- While microbreweries benefit from a tax rebate, they still pay over substantial excise duties to the revenue commissioners. Based on an estimate of 38,000 hl produced and consumed in Ireland, it is estimated that microbreweries will pay the Revenue some €1.6m in excise duties in respect of production in 2013, rising to some €2.8m in 2014.
- The micro brewing industry is expected to generate over €1m in income tax and PRSI receipts for the Exchequer in 2014. This rises to €2.8m when indirect and induced tax revenues are taken into account.

- The tax and PRSI revenues of €2.8m expected to arise from the microbrewery industry at 2014 production levels equals the expected excise tax rebate in respect of 2014 production.
- The micro-brewing sector is very export focused. Irish craft beer is currently exported to 25 countries.
- Some 38% of microbreweries are already exporting, albeit many of them on a small scale as yet. Of the total production of 49,000 hl in 2013, an estimated 11,300 hl was exported, representing almost 23 % of the total.
- Domestic craft beer production supplies only a fraction of the demand for craft beer in Ireland. Importation of craft beers dominates. Although, this picture is changing as more and more Irish micro-breweries come on stream and focus initially on the domestic market, the scope for further import substitution is very large.
- The Irish pub is an important element in the tourist experience and the increasing retailing of craft beer in pubs is serving to enhance the tourism offer. Food festivals are also an important vehicle through which tourists gain access to Irish food and drink culture and steps need to be taken to ensure that craft beers producers can full participate in these events.
- As the craft beer offer in Ireland develops, the potential for specific “craft beer tourism” will increase. The evidence is that the development of a micro-brewery *cluster* is important for the success of such tourism. With the current rate of expansion of microbreweries, it is evident that brewery numbers will soon become sufficient for such clusters to be identified: Dublin, Cork, and Galway are already on this path.

### **Future Development of the Industry**

- The output of the micro brewing industry is currently doubling every two years, so it has the potential to become a major element in the Irish drinks industry, with huge benefits to the economy.
- The industry is showing a healthy growth in start-up activity. The key challenge in this respect is to ensure that the failure rate is kept low and that these start-ups can achieve full utilisation of their plant capacities.
- The excise tax rebate is an essential support to micro-brewery start-ups. It would be made more effective if it were put on a non-rebate basis to improve the cash flow of new entrants.
- Changes in the regulatory environment to permit sales from brewery premises and at festivals would not only help the breweries, but also are a requirement if

craft beers are to help the development of a specific food and drink culture in Ireland that is attractive to tourists.

- Another feature of the industry is that only two microbreweries are operating at a substantial scale. These are also the two major exporting breweries. It is important that these breweries, and others that will advance to their level of production, be encouraged to grow to a scale that permits them to compete more easily on export markets.
- The current tax rebate is withdrawn in full once the brewery reaches 20,000 hl in annual production. This forms a very substantial barrier to the expansion of independent breweries in Ireland. It is also at odds with the best practice in other systems that involve a tapered withdrawal of the relief up to the EU mandated limit of 200,000hl. This tapered withdrawal not only affords firms the opportunity to grow to an economically effective size, but also involves a process whereby the support is withdrawn in a manner that is least disruptive to the firm's operations.
- There is a need to extend the ceiling to allow substantial head-room for small breweries to grow, together with a graduated withdrawal from 20,000 hl to the new limit.

## Appendix 1

### Appendix 1: Survey Questionnaire

Dear Sir/Madam

This is a survey of independent breweries being undertaken on behalf of the Independent Craft Brewers of Ireland by economic consultant Bernard Feeney. The main purpose of the survey is to obtain information to support submissions to Government for action to the benefit of independent brewers, particularly in the context of the upcoming budget. But this information will also be very useful to support dialogue with the media, public, other industry stake holders, etc. You should have received a communication from the ICBI alerting you to the survey and seeking your co-operation.

The survey will take only a few minutes to complete and **the results will be treated in the strictest confidence**. Individual breweries or the data that they provide will not be revealed in any publication or press release arising from the survey. If you have any questions about this survey, you may contact the consultant Bernard Feeney (tel. 353-1-872933115 or email. feeneybernard@gmail.com).

1. Please give the year in which your company commenced production: \_\_\_\_\_
  
2. What was your total production of beer in
  - a. Calendar 2012 in hectolitres? \_\_\_\_\_
  - b. Calendar 2013 in hectolitres? \_\_\_\_\_

**(Please exclude beer produced for you on contract by other breweries; if financial year data are more readily available to you, make an estimate for the calendar year based on that data)**
  
3. What is your anticipated total production of beer in calendar year 2014 in hectolitres \_\_\_\_\_
  
4. What is your projected total production of beer in calendar 2015 in hectolitres \_\_\_\_\_
  
5. What in hectolitres is your potential production capacity with your current brewing plant? \_\_\_\_\_

6. How many product lines are you currently producing? Regular \_\_\_\_;  
Seasonal/Occasional \_\_\_\_; Total \_\_\_\_\_

7. Do you currently export any of your production? yes \_\_\_\_; no\_\_\_\_

8. If “yes”, what percentage of your total production volume is exported? \_\_\_\_\_%

9. If “no”, do you have plans to do so within the next three years? yes \_\_\_\_; no \_\_\_\_

10. How many persons are currently employed in your business: Full time regular\_\_\_\_; Part  
time regular\_\_\_\_; seasonal \_\_\_\_; Total\_\_\_\_\_

11. What proportion (by value) of your expenses for brewing ingredients was purchased  
from sources in the Republic of Ireland? \_\_\_\_\_%

12. What legislative or regulatory changes would most benefit your business? (Please  
answer briefly in the space below).

---

---

---

13. What was the total annual revenue from your production of beer products in 2013?  
Please state the amount to the nearest €000: € \_\_\_\_, 000

**Or**

Indicate the range of values below (by ticking one of the boxes)

Less than €250,000 \_\_\_\_\_; €250,000 to €500,000 \_\_\_\_\_

€500,000 to €1m \_\_\_\_\_; €1m to €2m \_\_\_\_\_;

€2m to €3m \_\_\_\_\_; €3m to €4m \_\_\_\_\_

€4m to €5m \_\_\_\_\_; €5m or more \_\_\_\_\_

