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Rachel Reeves MP
Chair
Business, Energy and Industrial Strategy Select Committee
House of Commons
Westminster
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Tuesday, 19th December 2017

Dear Rachel,

Thank you for inviting Diageo to give evidence to the Committee's inquiry into Brexit and the UK food and drink industry. I write to provide more detailed information and examples that the Committee requested, as well as a few areas of opportunity that we did not have time to cover in the hearing.

1. Island of Ireland operations

Diageo operates a highly integrated supply chain on the island of Ireland, employing 1,200 people. Our production sites include Saint James's Gate Brewery in Dublin, a beer packaging facility in Belfast, and two production facilities for Baileys in Dublin and Belfast. We export more than €1 billion of beer and Baileys every year from Ireland - 70% of our total beer production and 99% of our Baileys production is for export. We purchase nearly 5% of Ireland's total milk production and 13% of Ireland's total barley each year.

While the majority of Diageo's finished products that are exported from the UK into the rest of the EU are already subject to zero tariffs, there are risks that we will face new tariff barriers on some of our raw materials (particularly diary inputs on the island of Ireland) if there were no new trade agreement between the UK and the EU. Further, if there was a 'hard border', we expect this could cost us at least £1.3 million per year due to customs processing delays of up to one hour and there would be additional costs of around £900,000 due to import/export administration.

2. US-Canada Border

As part of our scenario planning, we are looking at practices around the world to identify workable solutions for the movement of intermediate and finished goods between the Republic of Ireland and Northern Ireland. In the evidence session, I mentioned the US-Canada border as one example we are studying.

The movement of goods between the US and Canada is not entirely frictionless as there are still customs processes and infrastructure to control and monitor border movements. We would thus not advocate for a US-Canada solution and would prefer that the status quo is maintained. However, the US and Canada do utilise technology to minimise customs delays and processing complexities. They use number

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plate recognition, barcode scanning of documents, RFID technology and biometric information for approved drivers to process the movement of land transport as efficiently as possible. We participate in trusted trader programmes to minimise the border delays and the number of inspections we receive, including C-TPAT (Customs – Trade Partnership Against Terrorism) in the US, and PIP (Partners In Protection) and PAPS (Pre-arrival Processing System) Canada.

3. Duty Free

One area that I would like to draw the Committee's attention to is the opportunity from exiting the EU for travellers regarding duty-free products between the UK and EU27. The re-introduction of duty-free shopping for travellers between the UK and the EU would provide an important boost to the UK economy. A recent York Aviation report estimates that the return of duty-free would create 9,300 new jobs and deliver a £0.9 billion net gain to the UK economy. We will discuss with the Treasury what plans if any are in place regarding the future of duty free after Brexit.

4. UK Excise Duty

Brexit also presents an opportunity to bring fairness to the UK's excise duty system on alcohol beverages, as we would be no longer bound by the EU Minimum Excise Directive which requires members states to tax spirits differently to other categories of alcohol.

We believe that a fundamental re-think on the UK's alcohol tax system is needed to address the punitive level of duty on distilled spirits relative to other alcohol categories. The UK has the highest duties on spirits of any large economy and UK taxpayers now pay 40% of all alcohol duties collected in the EU. Excise and VAT in the UK mean that for the average bottle of Scotch, tax represents 79% of the retail price and we have shared with the Treasury independent evidence from KPMG that current duty rates are actually reducing overall revenues to the Exchequer. While the UK penalises consumers and one of its most successful export industries through excessive duty on spirits, half of all EU countries levy zero duty on wine to support their domestic wine industries. Brexit provides an opportunity to address this unfairness and to help the spirits industry thrive at home and abroad.

Once again, thank you for giving Diageo the opportunity to give evidence to the Committee and if you require further information please feel free to contact me. As we discussed after the session, I would be delighted to meet with you in 2018 if you would find that useful.

Yours sincerely

Dan Mobley
Corporate Relations Director, Diageo

Merry Christmas from us at Diageo!
All the best for 2018.