

<b>Title:</b> Irish whiskey, Irish cream and Irish poteen verification <b>IA No:</b> <b>Lead department or agency:</b> HM Revenue and Customs <b>Other departments or agencies:</b> Department of Agriculture, Food and Marine, Republic of Ireland	<b>Impact Assessment (IA)</b>		
	<b>Date:</b> 29/09/2015		
	<b>Stage:</b> Consultation		
	<b>Source of intervention:</b> EU		
	<b>Type of measure:</b> Other		
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<b>Summary: Intervention and Options</b>	<b>RPC Opinion:</b> Not Applicable
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Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2014 prices)	In scope of One-In, Two-Out? Measure qualifies as
£0.0m	£0.0m	£0.004m	No   NA

**What is the problem under consideration? Why is government intervention necessary?**

Geographical indications (GIs) protect the suggestion that a product has a certain origin and the quality associated with that origin. Irish whiskey, Irish cream and Irish poteen are GI spirit drinks notified under Regulation (EC) No 110/2008. The Regulation requires that GI spirit drinks must be verified as being compliant with the relevant specifications laid out in a document called a Technical File, which is lodged with the EU Commission, before being placed on the market. HMRC is the designated verifying authority for UK produced GI spirit drinks and so has the responsibility for verifying Irish whiskey, Irish cream and Irish poteen produced in Northern Ireland.

**What are the policy objectives and the intended effects?**

The schemes will provide protection and support for Irish whiskey, Irish cream and Irish poteen in domestic and overseas markets. The schemes will guard against counterfeit brands and give confidence to consumers and overseas tax authorities that Irish whiskey, Irish cream and Irish poteen produced in Northern Ireland is authentic and has been produced in accordance with the Technical Files for the products. In doing so, they will be implementing the requirements of Regulation (EC) No 110/2008 for GI verification. Similar schemes will be introduced by the verifying authorities for producers of Irish whiskey, Irish cream and Irish poteen produced in the Republic of Ireland.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

In order for a product to be protected as a UK GI spirit drink, it must be produced in line with the specifications of its Technical File. As such, the regulatory approach adopted was the only option available. HMRC has already implemented a verification scheme for GI spirit drinks. This came into effect in January 2014 for Scotch whisky. This stage will introduce a verification scheme for Irish whiskey, Irish cream and Irish poteen. The IT system in place for the Scotch whisky scheme will also be used for each additional stage as HMRC verifies further spirit drinks. Regulation (EC) No 110/2008 provides that the costs of verification are to be met by producers of the relevant GI spirit drink. HMRC will recover its costs by charging a verification fee, which may differ for each GI spirit drink. We will seek to keep these costs to a minimum and will verify producers once every two years, unless there are grounds to do so more frequently.

<b>Will the policy be reviewed?</b> It will be reviewed. <b>If applicable, set review date:</b> 12/2017					
Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A	<b>Non-traded:</b> N/A	

**I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.**

**Signed by the responsible  
SELECT SIGNATORY:**

*Janine Hills*

**Date:** 28 September 2015

# Summary: Analysis & Evidence

# Policy Option 1

## Description:

### FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	£0.038m	£0.004m	£0.033m

#### Description and scale of key monetised costs by 'main affected groups'

The total verification fees to known producers of Irish whiskey, Irish cream and Irish poteen in Northern Ireland are £7,667.00 payable every two years (see 'Evidence Base'), providing an average annual cost of £3,833.00. The Total Transition cost (over 10 years) is the average annual cost multiplied by 10 (£3,833 x 10 = £0.038m). See 'Evidence Base' for the calculation of Present Value Total Costs.

#### Other key non-monetised costs by 'main affected groups'

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate			

#### Description and scale of key monetised benefits by 'main affected groups'

The value of the commercial benefit of marketing a verified GI product was estimated by the Scotch whisky industry to be at least equal to the verification costs that will be charged to businesses. The same benefits are likely to apply to verified producers of Irish whiskey, Irish cream and Irish poteen.

#### Other key non-monetised benefits by 'main affected groups'

The verification schemes will provide protection from unfair competition to producers of Irish whiskey, Irish cream and Irish poteen by limiting the opportunities to counterfeit such product. They also provide consumer information and bolster tax authority confidence in the authenticity of such products.

#### Key assumptions/sensitivities/risks

Assumptions - Costs of verification will be shared between fewer than 10 businesses. The numbers may change as new producers set up.  
Risks - None foreseen. The structure for the verification scheme (i.e legal basis and IT system) is already in place. It delivers the requirements of regulation (EC) 110/2008 and achieves full cost recovery from industry.

#### Discount rate

3.5%

### BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: £0.004m	Benefits: £0m	Net: £0m	No	NA

## **Evidence Base (for summary sheets)**

### Problem under consideration

Geographical indications protect against suggestions that a product has a certain origin and the quality associated with that origin, when it does not. This offers protection to both consumers and producers of these products. The government does not mandate which products are to be protected, industry representatives make the decision to apply. The government's role is to lodge the technical information with the European Commission and implement a scheme to verify that the production processes are in line with that technical information.

Irish whiskey, Irish cream and Irish poteen are GI spirit drinks notified under Regulation (EC) No 110/2008. The Regulation requires that GI spirit drinks must be verified as being compliant with the relevant specifications laid out in a document called a Technical File, which is lodged with the EU Commission, before being placed on the market. HMRC is the designated verifying authority for UK produced GI spirit drinks and so has the responsibility for verifying Irish whiskey, Irish cream and Irish poteen produced in Northern Ireland.

### Rationale for intervention

The schemes will guard against counterfeit brands and give confidence to consumers and overseas tax authorities that Irish whiskey, Irish cream and Irish poteen produced in Northern Ireland is authentic and has been produced in accordance with the Technical Files for the products. In doing so, they will be implementing the requirements of Regulation (EC) No 110/2008 for GI verification.

### Policy objective

The schemes will provide protection and support for Irish whiskey, Irish cream and Irish poteen in domestic and overseas markets.

### Description of options considered (including do nothing)

In order for a product to be protected as a UK GI spirit drink, it must be produced in line with the specifications of its Technical File. As such, the regulatory approach adopted was the only option available.

HMRC has already implemented a verification scheme for GI spirit drinks. This came into effect in January 2014 for Scotch whisky. This stage will introduce a verification scheme for Irish whiskey, Irish cream and Irish poteen.

The IT system in place for the Scotch whisky scheme will be used for each additional GI spirit drink verified by HMRC.

Regulation (EC) No 110/2008 provides that the costs of verification are to be met by producers of the relevant GI spirit drink. HMRC will recover its costs by charging a verification fee, which may differ for each GI spirit drink. We will seek to keep these costs to a minimum and will verify producers once every two years, unless there are grounds to do so more frequently.

### Monetised and non-monetised costs and benefits of each option (including administrative burden)

#### (a) Monetised costs

EU legislation provides that the costs of verification are to be met by producers undergoing verification. The verification costs are very small when compared to the revenue generated by Irish whiskey, Irish cream and Irish poteen (for example, the Irish Spirits Association quoted the value of Irish whiskey to the Irish economy in February 2014 to be worth €568 million).

*Irish whiskey/ Irish cream producer/ Irish poteen production*

The breakdown of costs to verify a producer of Irish whiskey, Irish cream or Irish poteen in Northern Ireland is based on the assumption that the work will be carried out by HMRC's specialist Spirit Drinks Verification team in Glasgow and – based on the experience of verifying Scotch whisky producers – that it will take, on average, 2 days to verify a producer.

- Salary for a verification officer = £249 per day x 2 = £498
- 1 x overnight accommodation in Belfast = £80
- Return flight from Glasgow to Belfast = £100
- Car hire cost for 1 day from Belfast = £70
- Evening meal = £26
- Apportioned IT costs = £128

**Total cost = £902 per producer (current estimate)**

*Production of Irish whiskey/ Irish cream/ Irish poteen brands across multiple sites*

There are likely to be cases where production processes involved in making a brand occur across multiple sites.

For example, where a brand is produced at one site but is matured or bottled and labelled elsewhere. In this instance, the maturation or bottling and labelling that takes place would require a single day to verify, costing £451.

**Total costs for verifying a site carrying out bottling and labelling only = £451**

**Assuming there are currently 8 producers, verification costs for a 2 year cycle would be**

$$8 \times £902 = £7216$$

**Assuming there is currently one bottler, verification costs for a 2 year cycle would be**

$$1 \times £451 = £451$$

**Total estimated costs = £7,667.00**

The Total Cost (Present Value; PV) is £33,273.00. The table below shows how the present value of the cost is calculated, using the formula:

$$PV = \frac{C}{(1+i)^n}$$

where  $C$  is the average annual cost,  $i$  is the discount rate (3.5%) and  $n$  is the time period.

n	0	1	2	3	4	5	6	7	8	9	Total
Present value cost	£3,834	£3,704	£3,579	£3,458	£3,341	£3,228	£3,119	£3,013	£2,911	£2,813	£32,998

## (b) Non monetised costs

Any non-monetised costs are expected to be negligible.

### Benefits

The commercial benefit to businesses from the verification schemes result from the protection they offer from unfair competition. The schemes will provide significant deterrent to fraudulent/deceptive behaviours by limiting the counterfeiting of such product. They also provide consumer information and bolster tax authority confidence in the authenticity of such products.

### Rationale and evidence that justify the level of analysis used in the IA (proportionality approach)

Verification of GI spirit drinks is a straightforward process.

Verification is required under EU law, which also requires producers to pay the costs incurred by the verifying authority. We are able to break down those costs in detail (covering the salary, travel and subsistence costs of the staff carrying out the verification work) to calculate the verification fee.

### Risks and assumptions

Risks – There are currently no known bottlers of Irish whiskey, Irish cream or Irish poteen outside Ireland and the UK. Procedures will have to be implemented to verify these businesses, should they set up.

Assumptions - Costs of verification will be shared between a small number of businesses. These numbers are expected to remain fairly constant. The structure for the verification scheme (i.e. legal basis and IT system) is already in place. It delivers the requirements of regulation (EC) No 110/2008 and achieves full cost recovery from industry. No changes to this structure are envisaged.

### Micro businesses

Micro businesses are not exempt from the provisions of Regulation (EC) No 110/2008. It applies to them as equally as small medium and large businesses. Micro businesses producing Irish whiskey, Irish cream or Irish poteen must therefore apply for verification before putting their product on the market.

### Alternative options considered

#### **(1) Charge producers a scaled fee reflecting the size of the business**

This was rejected, as it would create cross subsidies (i.e. larger businesses subsidising smaller ones). It would also not be proportionate to the service HMRC will provide to each producer, which will be the same, regardless of size of business.

#### **(2) Charge producers the full costs of verification associated with each individual visit**

This was rejected as inequitable and would increase the overall cost of administering the scheme. It would result in higher costs to producers more remote from HMRC's verification team in Glasgow, reflecting varying travel and subsistence costs, for the same verification service provided to each producer.

### Summary and preferred option with description of implementation plan

In order to comply with regulation 110/2008 and provide support for producers of Irish whiskey, Irish cream and Irish poteen in the market place, HMRC is launching verification schemes to assure compliance with the products Technical Files, lodged with the EU commission. The schemes will use the existing infrastructure (i.e. legal base and IT system) for the GI spirit drinks verification scheme, launched in January 2014. Specific verification checks tailored to verify compliance with the Irish whiskey/Irish cream/Irish poteen technical files will be carried out by HMRC's Spirit Drinks Verification unit in Glasgow. HMRC will consult businesses on its plans to introduce the schemes, consider responses and introduce the schemes in autumn 2015.