

## **Introduction: Who We Are**

The British Hospitality Association is the authority on hospitality and tourism in the UK. We represent 45,000 businesses and we work with government to deliver three goals:

- competitive advantage for our country
- sustainable growth for our industry
- valuable new jobs for our people

It is on behalf of the industry that we respond to the consultation on the proposal to introduce a soft drinks industry levy, although some member businesses may respond directly to this consultation.

## **Our Approach to Health and Obesity**

The BHA believes that no single ingredient, product or meal alone causes or can solve obesity. A soft drinks industry levy targeting one product type is discriminatory and is likely to be an ineffective single solution to reduce obesity. There is no evidence of a link between soft drinks and obesity, indeed, in the last 10 years ‘full sugar’ soft drinks sales fell by 44%, yet obesity grew by 4%. We can also see that countries such as Germany, Belgium and the Netherlands all consume more soft drinks than the UK, yet have lower obesity rates. These strong contra-indicators to a link between soft drinks consumption and obesity levels should cause the Government to carefully reconsider whether it is targeting its efforts, and the likely adverse consequences these may cause, correctly. A policy that is discriminatory against soft drinks alone, therefore, is not in line with our overall view of how policy should be developed.

Our industry is committed to playing its part to reduce obesity and our members have long been working to reduce calories and sugar in menu options. However, our members have significant expertise in understanding the way people consume food out of home and believe in the fundamental right of our customers to choose what they want to eat and drink. As a result, we support a voluntary, multi-pronged, proactive and practical approach to tackling obesity. Any initiative should respect consumer choice, economic realities and ultimately, our need to eat. We do not believe that the levy supports this.

## **Economic Impact**

We are also concerned about the wider, unintended consequences of the levy, which we believe could cause serious negative economic repercussions for our industry. Independent studies suggest that the levy will be damaging to the economy, reducing UK GDP by 1% and causing a potential fall in employment. A recent Oxford Economics Study estimates that the tax will reduce the soft drinks sector’s contribution to GDP by £132 million and cost 4030 jobs<sup>1</sup>. Additionally, the Office of Budget Responsibility has calculated that a levy would increase inflation, putting up the CPI and RPI by 0.25%<sup>2</sup>. These impacts will be felt across the businesses, large and small, that form the soft drinks

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<sup>1</sup>[http://www.britishsoftdrinks.com/write/MediaUploads/Publications/The\\_Economic\\_Impact\\_of\\_the\\_Soft\\_Drinks\\_Levy.pdf](http://www.britishsoftdrinks.com/write/MediaUploads/Publications/The_Economic_Impact_of_the_Soft_Drinks_Levy.pdf)

<sup>2</sup> Office of Budget Responsibility - Economic and fiscal outlook – March 2016 - Page 227  
<http://cdn.budgetresponsibility.org.uk/March2016EFO.pdf>

industry's supply chain – including farmers, bottlers, convenience stores, and our members including, pubs, bars, restaurants and cafes. The financial impacts will be most strongly felt by SMEs, who, unable to absorb additional costs, will ultimately need to pass these onto the consumer. However, the ability of businesses to pass costs on to consumers via price increases will be dictated by market conditions. As an association representing an industry in which 9 out of 10 businesses employ fewer than 10 people, we are extremely concerned about these potential impacts, as price hikes will result in these businesses selling less. Reduced incomes will add greater burden on margins and profitability, which are already facing significant impact from forthcoming incremental cost increases including business rates, national living wage and apprenticeship levies. Most hospitality businesses have exacerbated cost efficiency possibilities following the recent recession and will therefore find it extremely difficult to absorb additional costs especially where they are unable to pass such costs onto the customer. .

### **Summary**

In summary, the BHA is concerned that the levy will impact negatively on member businesses, in particular SMEs, without actually achieving the desired outcome of reducing obesity. As such, the levy should be re-designed, or replaced by a non-discriminatory, holistic initiative with a broader scope to encourage healthy eating and sugar reduction across multiple sectors, as well as improving diet and exercise opportunities for children and teenagers. The BHA believe that the levy should be scrapped, and government should work with businesses to support actions such as reformulation, smaller packs and marketing of no-sugar options. As proposed, the levy also raises practical questions for our industry which are dealt with below in our responses to the consultation questions.

### **Questions**

**Q1 - Are you: a) a business?\* b) an organisation? If so, please provide details (e.g. trade / health body) c) an individual**

b) BHA is a trade organisation representing over 45,000 hospitality establishments across the UK.

**Q2 - If you are in business, where is your business established?**

N/A

**Q3 - If you are in business, how many staff do you employ across the UK?**

N/A

**Q5.a - Do respondents agree that a definition of 'added sugars' as set out in the consultation is sufficient to capture the types of sugar commonly added to soft drinks?**

Yes.

**Q5.b – If the above definition would be insufficient or could be improved, can respondents propose a suitable definition of sugar contained in UK regulations or guidance, or regulations/guidance from other jurisdictions, which would be suitable for the intentions of the soft drinks levy?**

No other changes to note.

**Q5.c – Do respondents agree that the Fruit Juices and Fruit Nectars (England) Regulations 2013 provide a reasonable reference point for legislation which achieves the aim of keeping pure fruit products outside of the scope of the definition of added sugars?**

The reference point is reasonable, however, many fruit juices and fruit based drinks are very high in sugar content. In order for the levy to be fair, it should treat all high-sugar drinks consistently.

**Q7. Respondents are invited to submit views on the treatment of liquid drinks flavourings as regards the soft drinks industry levy.**

As there is no set dilution or industry standard measurement for use on premises, it would be difficult to enforce the levy for liquid drinks flavourings, thus they should remain excluded.

**Q8. Do respondents agree that a minimum proportion of 75% milk is necessary to ensure that only nutrient-rich milk drinks are exempt from the levy? If not, what alternative test or treatment would you propose and why?**

In order for the levy to be fair it should encompass all high-sugar drinks. A 75% milk based drink may be nutrient-rich whilst also being high in sugar and calories. If the levy is introduced, these products should also be included to ensure consistent treatment of high sugar drinks.

**Q10. Do respondents agree with the proposed treatment of candy sprays, ice lollies, and dissolvable powders?**

It is not clear why dissolvable powders should not be included as they often have similar characteristics as dilutables and detail the recommended serving/dilution ratio. To exclude them would therefore be discriminatory. However, we agree that candy sprays and ice lollies are not soft drinks, so they should not be within the scope of this levy.

**Q11. We seek evidence and views from respondents on the types of added-sugar low alcohol products that may be captured by the levy, and the appropriate approach to these products in the levy legislation.**

The system should not disadvantage those who choose to have a low-alcohol product, and given alcohol duty is already paid on these products, this category should be excluded to support responsible drinking.

**Q17 - Do respondents agree that the proposed treatment and above definitions for importers are appropriate? If not, please specify why.**

Many hospitality businesses may have products delivered without being aware whether the product has been made in the UK or imported from abroad. The criteria set out in section 4.13 of the consultation document indicates that if a business happens to have soft drinks delivered directly from abroad, the business would be responsible for the tax. Checking sources of all deliveries is a considerable administrative burden for smaller businesses. A process for confirming whether the business would be liable when purchasing goods may be most appropriate.

**Q44. Unless already covered in your responses to other questions within this document, please tell us about how your business operates and how you think it would be impacted by the levy, including additional administrative burdens?**

The consultation document states that 'High street operators such as pubs, cafes and juice bars will not be liable for the levy,' (section 3.3) yet the criteria set out in section 4.13 indicates that if a business were to import products, it would potentially be liable for the tax. Maintenance of records of where products come from, and checking liability for tax will create a significant burden, especially for SMEs which comprise the majority of businesses in our industry.

We believe that suppliers should be liable for levy impacts and focus on accelerating and tackling the core issue of reformulating to develop less-sugary soft drinks. Additionally, suppliers should not be allowed to pass the levy on through cost price rises. If this levy is passed on to hospitality businesses by suppliers, it will not serve the purpose of adding pressure on suppliers to advance reformulation.

Furthermore, the ability of hospitality businesses to pass such costs onto the consumer will be restricted by certain market conditions. Consequently, hospitality businesses which currently face a huge spike in additional incremental costs including national living wage and business rates, will have margins further eroded. This may lead to job losses and business failure, particularly among SMEs. 9 out of 10 hospitality businesses employ fewer than 10 people.

**Q45 - Are there any specific impacts on small and micro businesses that are not covered? If so, please provide details of the anticipated one-off and on-going costs and burdens.**

The BHA believes it is likely the soft drinks industry levy will impact pubs, bars, cafes and restaurants across the nation – as more than one in 20 of every pound spent in hospitality is on soft drinks. Oxford Economics has estimated that 1,775 jobs in the hospitality sector are under threat if the tax is introduced. The sector will also lose some £46m from its contribution to GDP. As most pubs, restaurants and cafes are small businesses operating on the high street and serving their local communities, they will be hard hit by this additional cost burden on their operations. This will ultimately impact many high streets which are already struggling across urban, rural and coastal communities in the UK.