



Retail
Ireland

84/86 Lower Baggot Street
Dublin 2
Ireland
D02 H720

tel: +353 1 605 1500
email: info@retailireland.ie
web: www.retailireland.ie

Mr. Michael Noonan T.D.,
Minister for Finance,
Department of Finance
Government Buildings,
Upper Merrion Street,
Dublin 2.

23 December 2016

Re: Sugar-Sweetened Drinks Tax

Dear Minister,

Firstly, on behalf of our member companies, Retail Ireland thanks the Department of Finance for this opportunity to formally make a submission in relation to a tax on the production and importation of sugar-sweetened drinks (SSD).

Operating as a dedicated business unit within Ibec – Ireland’s foremost business and employers group – Retail Ireland is the leading public affairs, government relations and trade representation body for the entire Irish retail industry. A number of our member companies sell sugar-sweetened drinks and it is in that capacity that we make this submission.

Growth within the retail sector has been slow and incremental over the past two years. Sales value growth remains in a low single digit and competition around price is as intense as ever. Uncertainty around the pending Brexit negotiations and its effects on exchange rates alongside rising input costs, growing wage expectations and the growth of cross-border trade continues to add pressure to already tight margins.

Retail Ireland acknowledges that grocery retailers have a role to play in the area of health promotion. Retail Ireland is an active member of the Department of Health’s Working Group to develop a code of practice for food marketing, promotion and sponsorship. Retail Ireland’s members are committed to tackling the obesity and overweight problem in Ireland and promoting healthy lifestyles. The majority of Irish retailers are working with manufacturers and suppliers to reduce the levels of fat, salt and sugar in their products where technologically possible, safe and acceptable to consumers. In addition to reformulation, many food items sold are fortified to increase the amount of ‘positive nutrients’ (such as vitamins and minerals) in existing products.

Irish retailers are also reacting to changing consumer attitudes to diet and nutrition and now offer an ever-increasing range of healthier options in store which provide the choice to enable the healthy diet

that modern consumers demand. Through a wide variety of CSR programmes and sponsorship activities, our member companies are promoting a greater emphasis on physical activity and healthy choices amongst customers and employees.

Taxation is a matter for government, and retailers will, of course, comply with all necessary legislative revenue requirements. Retail Ireland accepts the Minister's decision to introduce a SSD tax in 2018. However, we would have reservations about the possibility of future policy decisions to extend or widen the base of this tax. Having carefully reviewed the proposed public consultation document, Retail Ireland urges the Department of Finance to consider our views and concerns set out below:

Retail Ireland welcomes the decision to administrate this proposed tax at the earliest possible point in the distribution chain. This approach will minimise the compliance burden on taxpayers and retailers, especially small and medium sized retailers who are already struggling with the growing regulatory burden on this sector. Retail Ireland recommends that this tax operates in a fair and equitable way, ensuring that it is applied correctly on all sugar-sweetened drinks and that the entire industry is compliant in achieving the objectives of this new tax.

An SSD tax would effectively be an additional tax on soft drinks, to which VAT already applies. Retail Ireland is concerned that the introduction of this tax may have consequences for retailers. We expect some of the additional costs placed on manufacturers and importers of SSD will be passed down the supply chain to retailers. Retail Ireland would suggest that the administration activities and compliance associated with this tax should not threaten or disrupt the supply of sugar-sweetened drinks for consumers and traders.

Retail Ireland supports the work being done by manufacturers and suppliers to reduce the levels of fat, salt and sugar in their products through reformulation. Various projections have suggested that this tax could generate up to €120 million per year and will cut obesity and related diseases through reducing consumption of soft drinks. It is disappointing that the Government, at this stage, does not plan on investing the funds raised through this tax into reformulation. Retail Ireland recommends that the money accrued by the SSD tax should be directed to support investment by industry into research and development on reformulation.

The proposal to place the compliance burden on importers has the potential to considerably impact retailers who are importing own brand SSD from their UK operations or those operating on a whole island basis. Retailers importing stock directly from outside of the Republic of Ireland will potentially be required to account for the tax on this stock. If this is the case, retailers would need to put in place extensive back office systems to ensure they fully comply with increased revenue responsibilities. To be compliant retailers will need to make substantial financial investments in their businesses in order to introduce new IT and accounting systems, and training programmes for staff. We would ask the Minister to consider introducing a realistic implementation period that gives all parties the required time and space to ensure full adherence.

Retail Ireland requests more information on this issue and asks for clarity on the term "importers", as this term is not clearly defined within the consultation document. Without a clear definition there is a possibility of double-taxation through taxing both shippers of the product and collecting excise fees on retailers/service-oriented businesses.

Retail Ireland and its members are greatly concerned about the black/grey market trade in products such as alcohol, tobacco and fuel. Such activity results in substantial losses on legitimate operators and the State. Grant Thornton estimates that illicit trade could be costing the Irish economy as much as

€2.35 billion¹. An increase in cross-border trade and a black/grey market trade in sugar-sweetened drinks will inevitably result from price hikes caused by the introduction of a SSD tax should this initiative not be implemented in conjunction with Northern Ireland counterparts.

The UK proposes to introduce a soft drinks industry levy in 2018 and Retail Ireland would recommend that the Department works closely with their counterparts in Northern Ireland so that the Irish SSD tax is aligned with the UK's proposed levy. Retail Ireland calls for the continued co-operation between An Garda Síochána and the PSNI on cross-border illicit activity including smuggling.

The impact of currency fluctuations will always affect shopping patterns in and around the border counties. The introduction of this tax has the potential to affect competition and encourage cross-border shopping in the border region which will cause damage to Irish businesses as well as making the tax-take highly unstable should both taxes not be aligned.

This public consultation allows for discussion on which products will be taxed but does not indicate the tax rates that will be used. Retail Ireland would like to request further clarity on the proposed tax rate and basis of computation and administration and further information around what role, if any, retail will play in the proposed tax. Without this information Retail Ireland cannot accurately assess the potential financial impact of the new sugar-sweetened drinks tax on the sector, and in turn cannot fully comment on market impact including cross-border and black market trade with confidence. In addition, Retail Ireland would question whether it will be possible to introduce this tax in 2018, as proposed in this consultation document. Industry, including retailers, will need a minimum of six to nine months to assess the impact of the new tax and take any necessary steps to ensure compliance.

Should you require any further information, Retail Ireland and its members would be happy to provide it. In order to clarify any aspects of this submission please contact Thomas Burke, Director of Retail Ireland, at thomas.burke@ibec.ie or by phone at 01-6051558.

Sincerely,

A handwritten signature in black ink that reads "Thomas Burke". The signature is written in a cursive, flowing style.

Thomas Burke
Director

¹ Grant Thornton. Illicit Trade 2015 - 2016 [internet], [cited 2016 July 11]. Available from <http://www.grantthornton.ie>