



ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the HMRC consultation on the draft Finance Bill 2017. ACS is a trade association, representing the 33,500 convenience stores trading at the heart of the communities across the UK (see annex A for more details). Our members include the One Stop, Costcutter, Spar UK and thousands of independent retailers.

ACS' submission will address two provisions of the draft Finance Bill 2017, which will impact the convenience sector. The provisions include Clause 50 which would introduce a Minimum Excise on cigarettes, increasing the price of the lower end of the cigarettes market, and Part 4 of the Bill which would introduce the Soft Drinks Industry Levy.

### **Clause 50 Cigarettes: Minimum Excise Tax**

ACS opposes the introduction of a Minimum Excise Tax (MET) on cigarettes. ACS' primary concern is that a MET would only exacerbate the illicit tobacco market as the price differential between the illicit tobacco market and the lower end of the legitimate market would increase, leading to more consumers downtrading to the illicit market. The price of tobacco for consumers already increases on an annual basis via the duty escalator at 5% above inflation.

Tobacco is an important category for convenience retailers representing on average 15.4% of sales in the UK convenience market<sup>1</sup>. This sales category has been slowly declining year-on-year as demonstrated in the table below. Retailers have been carefully managing the decline of this category by diversifying their product and service offer to consumers. The Government must think carefully about how it manages the decline in tobacco revenue in the future. There is a clear disconnect between Government's public health agenda to reduce smoking rates and the HM Treasury's reliance on tobacco tax revenues.

We believe the motivation for introducing the MET could be because of the recent decline in the revenue raised from tobacco taxation. Until 2012, revenue from tobacco taxation was increasing, revenue from 2012 had increased to £9,699 million from £9,517 million in 2011. However, in 2013, revenue fell to £9,530 million, £9,442 million in 2014, and to £9,269 million in 2015<sup>2</sup>. The Government should consider its ambitions for tobacco excise revenue in the light of the declining smoking rates and an increase in the illicit tobacco market.

<b>Year</b>	<b>Tobacco Sales (%)</b>
2013	20.1%
2014	20%
2015	18.8%
2016	15.4%

Retailers work hard to ensure they retail tobacco products responsibly, through enforcing age restrictions using policies such as Challenge 25 to ensure that under age people cannot buy tobacco. Convenience stores selling tobacco are already burdened by a number of tobacco legislation, most notably the tobacco display ban, the Tobacco Products Directive and the standardised packaging of tobacco which will affect retailers when they sell through

<sup>1</sup> ACS Local Shop Report 2016

<sup>2</sup> [HMRC: Tobacco Duties Bulletin](#)

for branded packs period end later this year. A Minimum Excise Tax on cigarettes will only exacerbate these burdens by driving consumers away from legitimate retailers towards the illicit tobacco market.

### *Impact on the Convenience Sector*

Until the rate for Minimum Excise Tax has been confirmed at Budget 2017, it is difficult to determine the exact impact that a MET on cigarettes would have on consumer behaviour and tobacco consumption., we anticipate that a MET on cigarettes would result in increasing prices at the 'super value' end of the tobacco market where the greatest volumes of sales currently exist for our members. While in theory an increase in the cost of these products could deter some people from smoking, we believe it is far more likely that they would seek cheaper, illicit sources of tobacco rather than giving up smoking. If a MET leads to a decline in low cost tobacco sales, this would not indicate a positive change in consumer behaviour if these sales are just being displaced to the illicit market.

We also have yet to see what impact the Standardised Packaging of Tobacco Regulations will have on downtrading from premium brands to lower end brands, and what impact the Regulations will have on the illicit tobacco market. However, evidence from Australia suggests significant down-trading to lower end brands as a result of standardised packaging, as brand values are eroded, customers see less reason to buy premium brands. If lower end brand cigarette sales increase as a result of standardised packaging in the UK, Minimum Excise Tax will have a bigger impact, however, this also means that there could be further displacement than expected to the illicit tobacco trade.

Following the announcement of the MET rate at Budget 2017, HMRC should publish an impact assessment for the introduction of a Minimum Excise Tax. The impact assessment should consider what impact MET will have on the lower end of the legitimate market, what impact it will have on the illicit tobacco market, and what role Standardised Packaging of Tobacco Regulations will play ahead of the introduction of MET.

### *Illicit Market*

The cost of the illicit tobacco trade to the Exchequer was £2.4 billion in 2015-16<sup>3</sup>, as such, it poses a significant threat to the Government's public health objectives and undermines the legitimate retail trade. As outlined above, we anticipate that a MET will increase the price differential between the lower end of the legitimate cigarette market and the illicit cigarette market leading to more consumers downtrading to the illicit market. The All-Party Parliamentary Group on Smoking and Health's report on the illicit tobacco trade supports this view. The report concluded that "if illicit tobacco is widely available some smokers will shift to buying and consuming illicit products rather than reducing consumption or quitting in response to tax and price rises."

That is why it is particularly important to note the current scale of the illicit tobacco trade. The APPG on Smoking and Health also concluded in their report that "high prices for legitimate products can create an incentive for smugglers and counterfeiters unless effective action to tackle the trade is taken"<sup>4</sup>. While action is being taken by the Government and trading standards to tackle the illicit tobacco trade, current sanctions must be used more effectively, and additional dedicated resources, otherwise Minimum Excise Tax will only harm legitimate retailers and fuel the growth of the illicit tobacco trade.

---

<sup>3</sup> HMRC: Measuring Tobacco Tax Gaps Report 2016

<sup>4</sup> [APPG on Smoking and Health: Illicit Trade in Tobacco \(2013\)](#)

ACS is committed to working with HMRC to tackle the illicit tobacco trade. In our [submission](#) to HMRC's consultation on the Tobacco Illicit Trade Protocol - licensing of equipment and the supply chain, ACS outlined a number of recommendations on how the Government can utilise current sanctions and powers not being used to further tackle the illicit tobacco trade. These included:

- More effective sanctions available to trading standards officers, including the revocation of alcohol licences for selling illicit tobacco,
- Additional powers to trading standards officers to sanction retailers by using the Customs & Excise Management Act 1979 (CEMA).
- Extending the scope of Restricted Premise Orders to include illicit tobacco as an offence

We encourage the Government to consider our recommendations to tackle the illicit tobacco trade as Minimum Excise Tax will only exacerbate the illicit tobacco market as the price differential between the illicit tobacco market and the lower end of the legitimate market increases.

#### **Part 4 – Soft Drinks Industry Levy**

We acknowledge that convenience store retailers have a role to play in tackling obesity and the industry wants to align with the Government ambitions to reduce childhood obesity. While the levy aims to encourage manufacturers to reformulate, we are concerned that the levy may have consequences for convenience retailers through loss of supplier support and the creation of an illicit soft drinks market.

ACS does not have any comments about the specific provisions on the Soft Drinks Industry Levy included in the Finance Bill. We will use this opportunity to again raise our concerns about the proposed Soft Drinks Industry Levy which include:

##### *Limited evidence*

ACS is not convinced that the Soft Drinks Industry Levy would be an effective measure in reducing soft drinks consumption and obesity rates. The levy is a blunt instrument and it is unclear how this will impact on sugary soft drinks in retail. Suppliers may elect to increase prices across the whole soft drinks category to make up costs and avoid reformulation.

##### *Impact on Retailers*

The products offered in the convenience sector vary depending on the store's size, location and ownership type. For example, while 41% of independent retailers sell more fruit and vegetables than they did five years ago, 35% of independent retailers do not sell fruit and vegetables in their store<sup>5</sup>. Not all convenience stores carry the same product range, and the smallest retailers do not tend to target consumers looking to do a weekly shop and rather cater to consumers as a treat shop, typically selling confectionery, snacks and soft drinks. As such, the Soft Drinks Industry Levy will affect each retailer differently, depending on their offering.

When surveying convenience retail members about the impact that the Soft Drinks Industry Levy would have on their business, 83% of multiple convenience retailers who responded anticipated that producers are either very likely or likely to pass on the levy to retailers by

---

<sup>5</sup> ACS Voice of Local Shops Survey February 2016

increasing full sugar soft drinks' unit cost<sup>6</sup>. In ACS' Voice of Local Shops survey of 1,210 independent convenience retailers, 27% of independent retailers responded that they expect their business will lose sales as a result of the introduction of the levy, while 9% responded that they believe customers are likely to switch to an alternative product in-store, so their business is unlikely to be affected<sup>7</sup>. 16% of independent retailers responded that they did not know how their business will be impacted by the levy<sup>8</sup>.

We expect some of the additional costs placed on manufacturers by the levy will be passed down the supply chain to retailers. We are concerned that the levy would disproportionately affect small retailers as they lack the negotiating power that larger retailers may have with manufacturers. Smaller retailers are currently far less able to resist a price increase from, for example, and we would expect this to be the case if manufacturers were hit with additional costs from a sugary drinks levy. This may impact on the unit price, promotion and other support offered by suppliers to independent retailers. In our survey on the impact of the levy on multiple retailers, 50% responded that they believed that the tax would be passed on disproportionately more to small retailers. In our survey of independent retailers, 10% responded that they expected price increases in soft drinks to affect their business disproportionately<sup>9</sup>.

### *Illicit Market*

As detailed in the Soft Drinks Industry Levy consultation document, the liability for the levy will arise at the point of production or importation. We are concerned that the Soft Drinks Industry Levy could create an illicit market for soft drinks, which has been the case for alcohol and tobacco where duties are also administered at point of importation.

The illicit tobacco and alcohol markets place significant burdens to both convenience store retailers and the Government. The availability of cheap, illicit alcohol and tobacco harms legitimate retailers who sell products legally and responsibly through implementing age restriction policies within their stores. Businesses not only lose direct sales of alcohol and tobacco to illicit traders, but also sales of other products, by customers who stop visiting their store. The Exchequer currently loses £1.6 billion to the illicit alcohol market and £2.4 billion annually to the illicit tobacco market<sup>10</sup>.

While we do not expect the soft drinks illicit market to grow to the same extent as the illicit tobacco and alcohol markets, as they have low cash value and margin, it is important to note that an illicit soft drinks market could reduce sales for retailers and losses in levy payments to the Exchequer. HM Revenue & Customs and trading standards have limited resources to tackle the sale of illicit tobacco and alcohol. An additional illicit market would only stretch their resources further. Therefore, we would welcome an assessment of the levy's impact on an illicit soft drinks market by HM Revenue & Customs.

**For more information on our submission, please contact Julie Byers, ACS Public Affairs Executive at [Julie.Byers@acs.org.uk](mailto:Julie.Byers@acs.org.uk) or 01252 515001**

---

<sup>6</sup> ACS Soft Drinks Industry Levy Survey 2016

<sup>7</sup> ACS Voice of Local Shops Survey August 2016

<sup>8</sup> ACS Voice of Local Shops Survey August 2016

<sup>9</sup> ACS Voice of Local Shops Survey August 2016

<sup>10</sup> HMRC: Measuring Tax Gaps Report 2016

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 50,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.



WHO WE REPRESENT

INDEPENDENT RETAILERS



ACS represents 22,870 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions. These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

SYMBOL GROUPS AND FRANCHISES



ACS represents 15,060 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits. Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents 12,165 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls, Conviviality Retail and others. Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR



In 2016, the total value of sales in the convenience sector was £37.5bn. The average spend in a typical convenience store transaction is £6.13.



There are 50,095 convenience stores in mainland UK. 74% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 390,000 people. 21% of independent/symbol stores employ family members only.



24% of shop owners work more than 70 hours per week, while 22% take no holiday throughout the year. 74% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors. 84% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2015 and May 2016, the convenience sector invested over £600m in stores. The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1200 independent and symbol retailers which is combined with responses from multiple businesses representing 3,970 stores.

ACS LOCAL SHOP REPORT

Annual survey of over 2200 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 5,765 stores. The Local Shop Report also draws on data from him! research and consulting, IGD, Nielsen and William Reed Business Media.

BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.