

Vintners' Federation of Ireland

Padraig Cribben Chief Executive



PC/L8/ab
24th June 2020

Mr. Michael McNamara, TD
Chairman
Special Committee on Covid-19 Response
Leinster House
Kildare Street
Dublin 2.
D02 XR20

Dear Mr. McNamara,

I wish to appreciate the opportunity to submit to your committee in relation to the effect that the Covid-19 pandemic has had on the pub sector.

Our Submission is attached to this document.

Kind regards

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Padraig Cribben', written over a horizontal line.

Padraig Cribben
Chief Executive

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**Covid-19 Special Committee
Submission**

June 2020

Background

The Covid-19 pandemic has brought great pain and suffering across the globe. In Ireland alone over 1,700 people have sadly lost their lives and a total of 25,400 have been infected. Our sympathies go out to all those families of people who have died as a result, including some members of our own Federation.

The pandemic has also had a considerable impact on many businesses, not least the pub trade.

Our pubs are unique and provide an experience which is unmatched in any other country. That is why visiting our pubs is regarded as an essential aspect of Ireland's tourism offering. Pubs are also an integral part of the fabric of many communities across the country, acting as a meeting place, a social hub and an outlet in areas of limited facilities.

The pub sector also makes a significant contribution to the Irish economy and Exchequer. Pubs in Ireland employ 50,000 people directly and are responsible for several thousand additional indirect jobs. These jobs are spread throughout every part of the country. We also help collect substantial revenues for the Government through taxation, VAT and excise duties.

The Covid-19 crisis has had a massive impact on life in this country. It was essential that extraordinary measures were taken to protect the public health. When this crisis eventually passes, extraordinary measures will also be needed to get life back to normal.

Pubs across Ireland have played their part during this crisis. Our industry was the first sector to close on 15th March, putting public health before our economic and commercial interests. We fully recognise this was the only responsible course of action and it was strongly supported by the Vintners Federation of Ireland (VFI).

However it should be acknowledged this period has been difficult for pubs. Turnover in the industry immediately dropped to zero. Tens of thousands of people lost their jobs in the space of a single day. Livelihoods disappeared in an instant, some of which may never return.

Pubs face a very uncertain future. It is certain that public health guidelines will restrict business in our industry for some time to come and that pubs will be among the last sectors of the economy to fully reopen and resume normal trading. We also have no indication as to when those 'normal trading' conditions will return, with recent suggestions that may not happen until such a time as a vaccine or treatment for Covid-19 has been found.

Very few sectors of the economy will have been hit as hard. None will have their trade limited for so long.

Our sector has always been resilient. It adapts. It is innovative and brings an entrepreneurial guile to whatever trading environment it faces. Whatever the post Covid-19 'new normal' looks like, we have no doubt that Irish pubs will meet that challenge head on, finding new ways to appeal to their customers and to maintain the place of the pub in Irish society.

We also know that when pubs are in a position to trade, they will reopen quickly and efficiently. Our members are ready to re-employ tens of thousands of people across the country and to begin once again generating much needed, significant revenue for the Exchequer.

But first we have to survive this crisis. To do that the pub sector will need Government support. We know this is a difficult time for the State and the economy. However at this time of crisis we asking the Government to invest in protecting the viability of the pub industry. We know that this is an investment that will pay off, providing a return of investment multiple times of what is being asked and which will make a difference to employment, commerce, Exchequer revenues and community life across the entire country.

Never before has the pub sector needed the support of the Government as we do now. This document provides a more detailed outline of what that support will involve and how the industry can return to being a major net contributor to the Irish economy in the relatively near future.

Those supports are outlined over the following pages.

Summary of Recommendations

SOCIAL DISTANCING

- Adopt World Health Organisation (WHO) guidelines for social distancing in hospitality businesses with 1 metre social distancing

VAT ON ALCOHOL – ON TRADE

- Reduce the VAT on alcohol sold in the On trade to the hospitality VAT rate for a defined period. This is now allowable under EU VAT rules and is being adopted by a number of European countries as a support mechanism for pubs

STAFF / EMPLOYERS

- Extend period of wage subsidy until pubs can trade without any social distancing restrictions.
- Covid-19 unemployment payment for publicans to remain until restrictions lifted.
- Government to cover redundancy costs.

REDUCING COSTS

- Cancel commercial rates until all restrictions are removed.
- Introduce a comprehensive suite of insurance reforms overseen by a cabinet sub committee

SUPPORTING RECOVERY

- Reduce alcohol excise by 50%.
- Direct Government Financial support for commercial rents and mortgages as is done in France with burden sharing between landlord or bank, the business and the Government.

FINANCING / LIQUIDITY & KICK-START SUPPORT

- The 'restart grant' announced on 2nd May should be increased to a minimum of €10,000 up to maximum of €30,000, based on licence band
- The €2 billion credit guarantee scheme announced by Government to support lending for SMEs needs to be streamlined for pubs to facilitate access to funds
- Close ongoing supervision of the banking and insurance sectors to ensure support for viable businesses. A supportive debt recovery charter to be introduced.

Reopening – the stark choices

Publicans are faced with a stark choice: open with severe social distancing guidelines in operation or remain shut until restrictions are completely removed. The impact of social distancing on the economic model of pubs is such that publicans are faced with a 'Hobson's Choice' – there are only downsides to either option.

What does social distancing in a pub actually mean? A report compiled by Knapton Consulting Engineers found that a typical pub or restaurant would face an 87% reduction in capacity, under the HSE social distancing guidelines. In a space of 100 square metres, standing capacity would drop from a maximum of 200 people to 25 people (i.e. 12.5%), while seated capacity would go from 100 people to 34 (34%).

The reduction is not as severe if the WHO's guidelines on social distancing are applied, which require a 1 metre gap being applied. This would see standing capacity drop by 50%, while seated capacity diminishes by 65%.

We realise that the need to protect the public health will require a gradual and phased lifting of the lockdown provisions. Measures to allow for social distancing and personal protection will continue to be necessary and will have to be integrated into the operation and structure of public houses. These measures will have a dramatic impact on the turnover of all public houses.

As pubs gradually reopen for business, the commercial model underpinning the sector will be dramatically changed. In effect, the existing physical space of a pub will generate substantially lower revenue due to physical distancing and its impact on customer capacity in premises.

Additional business costs will be incurred due to Covid-19. For example, the sector will also have to cope with ongoing customer concerns about people congregating which will slow the recovery.

Given the extreme economic scenario described, it is vital wage supports for publicans remain in place until pubs can trade without the need for social distancing. Social distancing will impact the pub trade to a greater degree than most other sectors, consequently our members will require the option of a 'twin-track' approach where they are open for business while also receiving the wage subsidy support and, in self-employed cases, the Covid19 unemployment payment of €350 per week.

RECOMMENDATIONS

The recommendations are under the following headings:

- Social distancing
- Employment
- Supports to reduce costs
- Finance and liquidity.

SOCIAL DISTANCING

- Adopt WHO social distancing guidelines for hospitality businesses.

In light of the capacity implications for all hospitality businesses posed by the social distancing restrictions, the Government should adopt the WHO social distancing guidelines in hospitality settings. While this will still significantly reduce capacity levels in pubs, restaurants, hotels and cafes, this change will be necessary for any prospect of commercial viability during the reopening period.

VAT

The VAT on alcohol consumed in pubs is currently at the highest VAT rate – 23%. It was traditionally held that alcohol was required to be at the highest rate under EU VST rules. That is no longer so. Other European countries like Italy and Spain have introduced lower VAT rates for alcohol consumed on the premises to assist their pub trade recover from the effects of the pandemic. We propose that it should be reduced to the prevailing hospitality VAT rate for a defined period.

EMPLOYMENT

- Extend period of wage subsidy

The Government should announce that it will continue the provision of the wage subsidy scheme beyond its initial 12 week period and should allow the scheme to continue until pubs can trade without the requirement for any social distancing restrictions. This would reduce uncertainty and directly sustain the viability of those jobs and businesses.

The wage subsidy is a great support in enabling pubs to retain employee links. It must be recognised that in its absence these employees would have been defined as unemployed because publicans would have been unable to continue wage payments. The subsidy does not enhance the public houses' financial position.

The initial relaxation of restrictions on pubs will produce a situation that while many enterprises will resume operations, many will still find it non-viable at the early stage. Both closed and operating public houses should receive the wage subsidy until all restrictions are removed.

Separately, but for the same reasons as above, publicans should be allowed continue claim the Covid-19 unemployment benefit until all restrictions are removed.

REDUNDANCY PAYMENTS

Given the likely Covid-19 restrictions, there will not be a full resumption by public houses of business at pre-March levels. Consequently there is a strong likelihood that there unfortunately will have to be some formal redundancies in the initial stages. We believe that, with the right supports, we will fully recover employment levels over a relatively short period

Currently the sector would be unable to carry the cost of this and the Government must step in to cover the redundancy costs if and where they arise.

A 'V curve' recovery is not expected for the economy or the public house sector. There will be a gradual progression to pre-Covid-19 levels of employment, but we are confident this will be achieved over time.

However, between initial partial reopening and full recovery of the sector, there will be a lower level of employment. In such a situation some former employees will be entitled to seek and receive redundancy payments. Making payments of this level in a dramatically reduced trading environment will be extremely difficult for public houses, would hinder the sector's recovery and would be counter to the objectives of the various cost reduction and financing enhancement measures. Simply put, there is no sense in advancing liquidity support and re-start finance if this money is then required to fund redundancies. The businesses themselves need that support to recover and retain jobs. That is why Government support to cover redundancy costs will be essential for both the businesses and the affected workers alike.

SUPPORTS TO REDUCE COSTS

The Government has made it clear that it will be a long time before the public house sector will operate on the pre-Covid-19 business model. Therefore it is essential that the cost base should reflect the changed market situation and are aligned with the practical implications of the new trading conditions.

Much of the cost base is generated by the State, so there are several measures directly in the Government's power and influence which would make a major difference.

Reduce alcohol excise by 50% from ending of lockdown for a period of one year

Irish alcohol excise is very high by EU standards and the drinks industry is one of few industries which suffer excise tax in addition to VAT. In 2019, excise removed €1.233 billion from the overall drinks industry. Public houses were responsible for about €600 million of that total.

Reducing excise would be a substantial boost to cash flow and commercial viability, particularly given the context of a difficult recovery and lower turnover to physical space expectations.

After this emergency one year period, excise should only be gradually increased. This will ensure that public houses can trade commercially in the tougher commercial model. We must avoid a situation that public houses are better off financially staying closed than opening for business when limited trading becomes possible.

Cancel commercial rates from March 2020 until all social distancing restrictions are lifted

We welcome the Government announcement that the commercial rates waiver for pubs will commence from closure date (15th March). However, given the severity of the economic impact on pubs for the foreseeable future due to the demands of social distancing, rates should not be reinstated until all restrictions on trading for pubs are removed.

Enterprises which have already paid the full year's amount for 2020 should get a refund for the relevant period.

In addition, all charges arising from State agencies such as commercial water charges and other local authority charges should be deferred for a year.

Financial support towards commercial rents and mortgages during the period of lockdown and early recovery

There should be state financial support towards the cost of commercial rents of public houses equal to 60% of the rent and service charge cost during the emergency period where businesses are required to trade under social distancing restrictions. A scheme such as this has been introduced in France where the Government supplements rent by 60%, the landlord reduces rent by 20% and the commercial tenant pays 20%.

Commercial mortgages should also be supported with a similar mechanism. This support measure should continue until all restrictions to normal trading are removed.

Insurance cost and availability

There is a danger that insurance cost, availability and conditions will hamper the recovery of the drinks and hospitality sector. Government should ensure that this is not the case. We are conscious that this has been a longstanding issue for the enterprise sector but despite the best efforts of all concerned there has been little progress. Progress is now essential. A short horizon emergency task force should be established to ensure that insurance issues do not hinder economic recovery.

There is also strong concern about how certain insurance companies have behaved in relation to business interruption cover during the course of this crisis. While the insurance sector has paid lip service about honouring policies, some insurance providers have acted in complete contradiction to that commitment.

We are calling on the Government and the Central Bank to closely examine a selection of relevant business interruption policies which are currently being obstructed and to then liaise directly with the individual insurance provider to ensure they are honoured.

In addition a full suite of reforms is required in this area and this should be driven and overseen by a dedicated Cabinet Sub Committee

FINANCE AND LIQUIDITY

- Extensive liquidity and credit support for affected enterprises

Government must ensure that banks and debtors are supportive of the public house sector throughout both the lockdown and the recovery period and that sufficient easily accessible short and medium term cheap credit is available for enterprises in a speedy and simplified way. This will involve central bank directives on bank behavior and operations, low interest rates, supportive debt forbearance approaches by both private and public bodies, Government guarantees, supportive repayment terms and EU sources of funding. Bills continue to mount during the period of closure.

Publicans recommend that there should be strong, immediate, transparent and active oversight of bank behaviour to ensure that enterprises are supported over the virus emergency.

The €2 billion credit guarantee scheme to support lending for SMEs announced by the Government on 2nd May (for terms ranging from three months to six years that will be below market interest rates) should be streamlined for publicans to facilitate ease of access.

Reopening allowance for small firms affected by Covid-19

On 2nd May the Government announced a set of business supports that, while welcome, fall short of what is required if the pub sector is to survive this crisis. Bills continue to accumulate during the course of the shutdown and many hospitality businesses will have ongoing commitments to meet energy bills, insurance, pest control, alarm and security contracts as well as other costs.

Of all the initiatives announced, the 'restart grant' will have the most impact for the pub sector. Advertised as a €10,000 grant, in reality that figure is the maximum a small business can claim based on rates/waiver rebate from 2019. We are calling on Government to revisit this grant to ensure the minimum allowance is €10,000 with a ceiling placed at €30,000 based on a pub's licence band.