The Coca-Cola Company®

COCA-COLA PLAZA
ATLANTA, GEORGIA

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July 20, 2016

The Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
Horse Guards Road
London
SW1A2HQ

Via Email: [S40]

Dear Chancellor:

Many congratulations on your appointment. As a recent appointee myself, and the first British President and COO of The Coca-Cola Company, I hope the move to your new role goes smoothly and I wish you every success in meeting the challenges ahead.

I noted with great interest your recent comment that the key challenge now is to signal reassurance about the future as quickly as possible to the international investment community, British businesses and to British consumers.

While the UK's departure from the EU means a period of uncertainty, the Coca-Cola system has a long history of adapting to the political landscape of the countries where we operate. We will approach the current circumstances in the UK in the same way.

We are heavily invested in the UK's continued success, but I am concerned that the current landscape is becoming increasingly challenging. The single biggest risk to our ability to maintain our investment in our UK operations is the soft drinks levy. It is by some margin the greatest regulatory burden we face in the UK.

We feel it is not necessary and that there is no evidence to show it will work. It will not reduce obesity and have negative consequences for both businesses and consumers.

It is unnecessary because we have been reformulating our drinks to reduce sugar for more than 30 years. We have reformulated 28 drinks since 2005 and every drink we sell has a zero sugar version. There are clear signs this is working to reduce people's sugar intake, but not obesity rates. There is no evidence from anywhere in the world, including Mexico, that taxes make people thinner.

The most up to date Government data, from DEFRA, show that sales of regular, 'full sugar', soft drinks fell by 44% between 2004 and 2014. Figures from industry analysts at Kantar also show that the amount of sugar taken home from soft drinks by shoppers has fallen by 16% in just the last four years.

We agree that obesity rates are too high and we are fully committed to playing our part to help reduce them, but measures targeting sugar and soft drinks alone will not solve this problem.

The levy is also bad for the UK businesses we work with up and down our value chain, including farmers, our can and bottle manufacturers, pubs, restaurants, newsagents, convenience stores and wholesalers.

These businesses are facing regulatory burdens and market pressures of their own. The soft drinks levy simply adds to the significant challenges they already face.

For example, wholesalers tell us they are concerned that the levy incentivises 'grey imports'. This concern is fuelled by the fact no increased resource has been allocated to HMRC to enforce the levy. Another recent analysis calculated the levy will cost 46,000 small convenience store owners £8,100 a year each in lost revenue.

The Prime Minister has already said that she recognises people are worried about the cost of living. This levy is clearly a regressive tax and the greatest burden will fall on ordinary families.

But as well as hitting the poorest hardest, it could end up costing everyone, regardless of whether they buy soft drinks. The OBR calculated that the levy will increase the CPI and RPI by 0.25%, increasing Government interest payments on loans by £1billion in the first year of the levy. This will also put up grocery and other household bills.

We are committed to the UK. More than 97 per cent of the drinks we sell in Great Britain are made in Great Britain and in the last five years we have invested £250million in our British operations. We have just created Europe's largest FMCG manufacturing business, Coca-Cola European Partners. It is headquartered and has a listing in London.

We directly employ 4,000 people across 11 sites, including our six manufacturing plants in East Kilbride, Morpeth, Wakefield, Edmonton, Sidcup, and Milton Keynes. Our activities support another 35,000 jobs across the wider economy, and we work with 8,500 UK suppliers who rely on the £800 million we spend with them each year. In total, we cause around £1billion in taxes, including VAT, to flow to HM Treasury every year, and we generate about £2.4billion to the wider economy.

We understand that obesity rates are too high and we have much planned the play our part in helping address them - actions we believe will achieve more than the imposition of a regressive and ineffective tax. Ironically, the soft drinks tax will make it more difficult to continue investing in the changes we are making to our business.

I would be very keen to have an early conversation with your team about how we can address these issues and work together constructively.

In the meantime, I offer my best wishes for every success in your new role.

Yours sincerely,

JRQ/cmk

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

3 August 2016

James R. Quincey
President and Chief Operating Officer
The Coca-Cola Company
PO Box 1734
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Dear Mr Quincey

Thank you for your letter of 20 July, welcoming me to my post and giving your perspective on the UK Soft Drinks Industry Levy (SDIL).

I recognise and value The Coca Cola Company's continued presence in the UK, and I am pleased that you have recognised the UK's status as a great place to do business by choosing to headquarter Coca Cola European Partners here. As we look to negotiate the UK's exit from the EU there will naturally be some uncertainty for businesses, but the Government is clear that the UK will remain a stable, competitive and business-friendly environment.

As you acknowledge in your letter, childhood obesity is a major issue across the UK. A third of English schoolchildren are overweight or obese when they leave primary school. The evidence suggests that 80% of children who are obese in their early teens will go on to be obese adults, with an increased risk of many serious illnesses. Obesity prevalence already costs the UK economy between £27 billion and £46 billion per annum, and the annual costs to the NHS are around £6bn, and rising.

Health experts have told us that sugar-sweetened soft drinks are a major factor in the overconsumption of sugar, and a specific cause of childhood obesity. This is why, at the Budget in March, the Government announced the new industry levy, which will be paid by the producers and importers of added sugar soft drinks to encourage them to reduce sugar content.

I welcome the steps that companies like Coca Cola have already taken to reduce sugar content. The SDIL is designed so that companies can reduce their levy liability if they reduce added sugar in drinks, promote low-sugar brands, and reduce portion sizes for high sugar products. The Chief Medical Officer has said these steps are vital to combat rising obesity levels, and companies will have a further 2 years to continue this work before the levy begins in April 2018.

I understand that your company and other businesses throughout the supply chain will be concerned to ensure that the levy operates in a way that is fair, effective, and minimises business burdens. I know that officials from HM Treasury and HMRC have had several discussions with representatives from the Coca Cola group of companies about the detailed levy design, and will continue to do so as we consult on the levy during this summer.

I would like to thank you for making me aware of your perspective on the SDIL. Ministerial responsibility for the levy will sit with the new Financial Secretary to the Treasury, Jane Ellison MP, and I am copying her into this letter. The Financial Secretary would be happy to meet with representatives from Coca Cola to discuss the levy during the forthcoming consultation period and her office will be in touch in due course.

PHILIP HAMMOND