Peter Backman.

Monthly Briefing Report

Week ending 28 February 2021

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Introduction

I have been publishing my Quarterly Briefing Report since 2009. At the start of the covid lockdown, I began my Weekly Briefing Report to provide a more immediate view. And now, in addition to the Weekly Briefing Report, which remains free of charge, I have launched a premium version which includes a subscription to my Quarterly Briefing Report and a new series of Monthly Briefing Reports. You can find details here.

I would value your feedback on topics you would particularly like me to add to my coverage - my email address is peter@peterbackmanfs.com and my phone number is 07785 242809.

My insight

The news that the hospitality industry had been waiting for came as expected on 22 February. Lockdown restrictions will be coming to an end in an orderly process – every five weeks more restrictions are to be removed and they will be removed totally on 21 July (or at least that is the plan).

Crucial stops along the way, for the foodservice sector and its suppliers, come on 8 March when schools reopen. Five weeks later pubs and restaurants will be allowed to reopen for outdoor trading but only about 40% of pubs are likely to have a sufficiently large space to reopen at this time – and very few restaurants. From mid-June (certainly not earlier and maybe later) restaurants and pubs will be allowed to reopen fully for dining in, concert halls and theatres can reopen, and hotels probably too. Holiday lets can also open, and some leisure sites including bowling centres, zoos, theatres, and outdoor cinemas (are there any?). Even nightclubs may reopen

Until restrictions are fully removed in late July, 1-metre plus distancing rules will probably apply, the Rule of 6 will apply, and only table service will be allowed. But there will be no 10pm curfew and no need for a "Scotch Egg" meal in a pub.

So that's settled then. Well, if not settled, at least there's something to start making plans on.

Two, opposing views

However, the people that I've been speaking to have approached this latest confirmation of the planned release from lockdown in one of two ways. The first (and this was confirmed during the course of the most recent Open Hour session open for subscribers to these Premium Briefing Reports) is the view of suppliers – of all kinds and categories of product and services – together with some operators, that there is at least some reason to hope – maybe not wild optimism, but at least some, quiet hope. The operators in this group are generally those that are better funded and have financial (and other) resources to see them through to "the other side".

But amongst the other category – mainly pub and restaurant operators – there is a very strong reaction to the thought of another three months of lockdown (that's until mid-May) – in the words of somebody I spoke to in the last couple of days: "We're only halfway through this lockdown. It's been bad up to now – and it'll get worse". It'll get worse because whatever finances, and goodwill, that were in the business, will trickle away (or perhaps flood away) over the next few weeks. These are heart-breaking conditions for those in the hospitality sector, and also, to an extent, for the social infrastructure that underpins the sector.

But many operators have gone much further and condemned the government of, amongst other things, "destroying" the pub and restaurant sector. They have levied a number of charges; two, in particular, have caught my eye. The first is the charge that the government has an apparent single-minded focus on the hospitality sector demonstrating that it is prepared to "sacrifice" the sector. The second charge is the absence of any evidence that the sector is a vector for transmission of covid. And that started me looking at the issues behind these two, significant, charges.

Why is the government out to "get" the foodservice sector?

First, why is the government intent on damaging the foodservice sector? Well, of course, it isn't (and I suspect that people levying this charge don't really believe it). In fact, if the UK government is intent on destroying the industry, why do governments in other countries exhibit the same desire?

In Germany, restaurants and bars are closed – at least until 7 March when there will be a further review. In France, bars and restaurants are shut at least until Easter at the earliest. If both these countries have shut down the sector, surely there is some reason, rather than evil intent, behind these decisions. And if you think I have been selective, what about Sweden where restaurants are open? Well even there, there is a limit on the numbers of people permitted at a table, restaurants and bars are not allowed to sell alcohol – and anyway, restrictions are being tightened further from the end of February. And, what about Italy, where bars and restaurants, in only 15 out of the county's 20 regions, are open (but only until the witching hour of 6pm)? In Spain food and drink venues are shut in ten out of the country's 17 regions (including large cities); in the other seven regions, early closing curfew rules are in place (for example, restaurants in Catalonia are shut at 4:30pm). In Portugal, cafes and restaurants are closed for dine in; in the Netherlands, restaurants and bars remain closed except for take away and delivery; in Denmark, restaurants and bars remain closed for dine in; in Ireland, restaurants, bars, pubs, cafes are closed (except for takeaway). Finland has just announced the closure of restaurants and bars for three weeks from 8 March.

> "When will the UK government recognise hospitality can be opened safely now and stop treating the industry like it can't be trusted?". **Matt Grech-Smith, co-CEO, Swingers**

I could go on, but I think you'll agree a pattern is emerging. Of course, closing restaurants, bars, pubs, and cafes in so many European countries might all be some plot masterminded by Brussels, but I don't think anybody would really believe that to be so.

So, if the UK government is intent on killing hospitality, so are many other governments too. But since concerted action is unlikely, something else must be at play. And that something else, is a belief amongst the "authorities" that it is actually beneficial to close the hospitality sector for the time being.

Why might it be worthwhile closing down restaurants and pubs?

Why should it be beneficial to close these businesses? I must stress here that I am not arguing the case – but I am putting forward some of the arguments that support it. And I also ought to point out that I am not discussing these issues from the standpoint of any political support for what the UK government decides or should decide, although I do recognise the many difficulties it faces in deciding between the choices it has to make.

The answer to the question "Why should it be beneficial to close hospitality businesses?" is that by its nature, this sector involves, indeed it requires, many people to be in close proximity to each other in enclosed settings. Most epidemiologists (and many others) maintain that these conditions encourage transmission of covid. Of course, these conditions apply in other sectors too – such as theatres and cinemas, hotels, workplaces, hospitals, care homes, schools, and non-essential retail. Right now, with the exception of the health care sector and some workplaces, these sectors are shut.

But the charge from the restaurant sector goes: given that there is a planned roadmap for release from restrictions, how come indoor dining and pub-going will not be allowed for another three months? Why is it so far down the list?

> **"[Using] this part-opening as an excuse to pull the rug ... will backfire disastrously". Chris Soley, CEO, Camerons Brewery**

The, relatively trivial, answer is that it is not far down the list: schools will reopen in early March, and the others (with the exception of al fresco dining, and outside drinking in pubs) will all be released at the same time in mid-May or later. Admittedly this will be after the opening of non-essential retail (and hairdressers), but it is not evidence that hospitality is being singled out.

So, if hospitality is not being singled out, what about the charge that there is no evidence that restaurants and pubs are covid infection vectors? What, if anything, is the evidence?

Are restaurants and pubs vectors for covid?

The answer to that question is in several parts. First, contrary to the assertion that there is no evidence, there is actually evidence. The US Federal Government has published research that 14% of covid outbreaks in Washington DC could be traced to restaurants and bars. Research in South Korea showed that people in an enclosed setting became infected after 5 minutes when seated 6.5 metres from an "infector". Circumstantial evidence showed that restaurants are a significant vector in New York city. Research from Warwick University linked covid cases to restaurant settings. In Japan, a research paper highlighted the high odds of contracting covid in a closed environment.

And there is much more.

But, the counter argument goes, this is piecemeal evidence, it is (sometimes) based on small samples or imperfect sources, it's not specific to restaurants, it's often circumstantial, it doesn't in the main include the UK. All true, but all this evidence points in one direction: closed environments, where people gather, are likely to be sources of covid infection. And it's not a very small likelihood, but probably a rather large probability.

The crux of the matter

Of course, none of the foregoing is "firm evidence" that restaurants and pubs are "causes" of covid.

But they might be, and that is the crux of the issue. It's crucial because there are no certainties in the covid pandemic, and therefore governments, not just the UK government, are in the business of making judgements.

Maybe pubs and restaurants are not vectors of covid

In support of their arguments, some operators have produced some evidence that their locations have not given rise to any infections. And furthermore, operators claim that pubs and restaurants are places of low, or even no, risk because of the protocols that have been put in place – social distancing, mask wearing, surface cleaning, eliminating dual touch occasions (such as using disposable menus or QR codes to read them) and so on.

So, protagonists of this view argue: no outbreak of covid (or only a very small percentage of outbreaks) can be laid at the door of restaurants and pubs. Furthermore, operators have robust procedures in place that will eliminate (or massively reduce) the spread of covid.

Well, these arguments suffer from the same shortcomings as the scientific evidence that I've noted above. They are partial – by no means all restaurants have robust protocols in place, for example. And the lack of evidence that restaurants contribute to covid transmission, suffers from the same problems as any search for evidence in the highly complex field of epidemiology – and specifically, in this case, the linkage of an outbreak or a specific case, to a particular location. We humans are creatures that occupy many different spaces and come into contact with many people in the course of our daily and weekly lives. It is impossible to disentangle which location or occasion is the source of which covid case. It's fiendishly difficult to prove causation. And so, evidence from a (small) number of operators that fails to find any links whatsoever to covid, is just a victim of this immensely difficult task.

In parenthesis, I would note that so-called super-spreader events have been identified that link outbreaks with specific events and individuals such as mass weddings, mass political events, some airline flights. But these are relatively isolated events and most spreading of covid seems to occur at small scale – with only a handful of individuals being involved. The cause of each individual becoming infected with covid could be identified with full contact tracing – both forward and backward – but most countries (including the UK) have not achieved this. Although this is a digression from my main point, it is important, and I feel I should note it for completeness.

A balance of probabilities

So, two opposing lots of evidence – for and against hospitality being a covid vector - pose a problem for people who have to make decisions about what to do to stop covid. As I have already said, they have to deal in probabilities. What is the probability that restaurants, and pubs, are going to give rise to an increase in covid infection rates?

And that question has to be set against similar questions for other sectors – schools for example. If the answer for both restaurants and schools was zero possibility of their being a source of covid infection (or as close to zero as makes no difference), then they can both be opened with impunity right away. But I hope to have shown that this zero probability is not the case.

The objection can be raised: why should restaurants be required to show this zero probability? The answer is that, as I have stressed, the decision makers in government are dealing in probabilities, and the weaker the evidence, the higher the weight that they will put on the probability of infection. Ultimately, it is for the government to decide and in doing so it should make its case; but it does not have to provide irrefutable evidence for its decision.

Simply put, it is in the interest of the foodservice sector, alongside all other impacted sectors, to provide robust, ideally irrefutable, evidence to support their case that they make to government. That is an ideal that I suggest is impossible to meet (though I may be wrong).

What about other factors?

On the other hand, schools, restaurants, and pubs, do have strong arguments on their side for being allowed to reopen – and those arguments mainly concern financial and social costs.

So, government has to take a view about the balance of these costs against the likelihood of transmission of covid. It's a difficult set of conundrums – made even more difficult by the fact that it's not merely a decision between schools and restaurants, but between all of the many other sectors that are impacted.

So how can the restaurant and pub sector effectively argue its case for swift reopening? And preferably for reopening in less than the current three months? There are two routes. The first is for the sector to produce irrefutable evidence that the sector causes zero infections (or as close to zero as makes no difference). This is a very high hurdle and already, after nearly a year, the industry has not shown this – irrefutable - evidence.

The other route is to see what happens. And that is the route being taken by the government. Open up, slowly but in a planned way, and see what happens. And as part of the plan, give reasonable priority to "deserving" sectors – schools: yes – and restaurants and pubs with outdoor seating: yes (even though this only applies to a minority of outlets). And then indoor dining.

In practice

We are witnesses to, and many of us are engaged in, a cruel process – but it is not an unreasonable one. Lockdown restrictions will be coming to an end in an orderly process that inevitably cannot be completed at once. The hope is that the process turns out all right, in the shortest possible time.

> **"It feels like we are shouting into a void with the government hearing only what it wants to hear". Mark Wingett,** Editor, Propel

And furthermore, there is the hope that, along the way, the government will do whatever it can to mitigate the social and economic costs imposed by its decisions. We shall see if this hope is justified when the Chancellor makes his Budget speech on 3 March.

The remainder of this Monthly Briefing Report contains a summary of the longer-term financial, legal, and corporate activity over the medium term that has been reported in the past month.

News in the month

Financial & Legal

- TfL data shows footfall in central London fell -92% over the year to February
- Traffic at West End tube stations fell -95% in February vs last year according to TfL

Landlords

- Local Data Company shows that 54% of closed units in the City of London in 2020 were hospitality and leisure businesses

Restaurants

- Di Maggio's Group turnover fell -11.5% in the year to April 2020
- Honest Group Ltd (owner of Honest Burger) revenue rose 31.6% in the year to end January 2020

QSR

- German Doner Kebab LfL sales were up 51% in the year to end 2020

Pubs

- Heavitree Brewery sales fell -33.3% in the year to end October 2020

Leisure

- Heathrow Airport passenger numbers dropped to 1970s levels at end 2020

Around the World

- Intercontinental Hotels turnover fell -48% in calendar 2020
- Domino's Pizza global sales increased 12.5% in 2020
- Shake Shack sales in the last year to January 2021 fell -5%
- Keurig Dr Pepper sales were up 4.5% in 2020