

COVID-19 support for businesses reliant wholly or partly on international visitors

1. Overview and proposal

- 1.1 As the Government considers plans for lifting, over time, the lockdown so that businesses can start work on the recovery of the UK economy, it needs to consider the different types of customers from whom sectors earn part or all of their income.
- 1.2 Certain sectors rely on international spending by visitors, who are unlikely to return in significant numbers until 2021. These include retailers, hoteliers, theatres, visitor attractions in international centres as well as tour operators, VAT refund operators and airports.
- 1.3 In particular, the cumulative loss of major stores, historic theatres and large visitor attractions in and around London's West End would severely damage the appeal of this district which is of huge importance for the UK's global competition as an attraction visitors, investors, talent and students throughout London.
- 1.4 **This paper proposes that the withdrawal of temporary business support measures, particularly the job retention scheme, should be tapered to take account of the delayed return of the international visitor market. It also suggests introducing more flexibility to the Coronavirus Job Retention Scheme such as part-time furloughing.**

2. The issue

- 2.1 The Government has introduced a series of welcome temporary measures to support businesses facing cashflow difficulties as a result of the COVID-19 pandemic.
- 2.2 The aim of these measures is to minimise costs of those businesses that are suffering greatly reduced income due to the lockdown so that they survive the impact of the pandemic to become part of the national economic recovery.
- 2.3 Particular emphasis has been on businesses in the retail, hospitality, entertainment, travel and tourism industries whose income has been particularly hard hit, having largely ceased operating during the lockdown.
- 2.4 The key support measures include:
 - The 12 month business rate holiday
 - The Coronavirus Job Retention Scheme to reduce employment costs and secure jobs
 - Access to government-backed loans
 - Grants for smaller businesses
 - VAT quarterly deferment
 - Measures to ease rent pressures
- 2.5 These measures are temporary and, where appropriate, the Government plans to lift them as soon as possible.

- 2.6 However, for businesses that depend wholly or partly on international visitors for their income, removing some of these cost reduction measures as the lockdown is lifted, but before international visitors have returned in significant numbers, will result in cash flow pressure that could damage their ability to survive and inevitably lead to significant redundancies. This would throw away all the benefits of, and investment in, the furlough scheme to date.
- 2.7 Businesses that will suffer include major retailers in international Centres (including London's West End, Knightsbridge, Bicester Village and city centres such as Manchester and Edinburgh), West End theatres, major visitor attractions, airlines and airports, tour operators, VAT refund operators and event organisers.
- 2.8 This would both diminish the UK's attraction to international visitors and reduce the ability of the UK to earn income from international visitors as a significant contribution to economic recovery.
- 2.9 Moreover, the cumulative loss of major stores, historic theatres and large visitor attractions in and around London's West End would severely damage the appeal of this district which is of huge importance for the UK's global competition as an attraction visitors, investors, talent and students throughout London.

3. The value of international visitor spending

- 3.1 In 2018 the 37.9 million international visitors to the UK spent £22.9 billion¹.
- 3.2 USA, France and Germany were the top three source markets (29% of all inbound visits). The top 50 international source markets are listed in Appendix A
- 3.3 London accounts for 54% of all inbound visitor spend, the rest of England 33%, Scotland 10% and Wales 2%.

4. Timescale – forecasts of international visitor returns

- 4.1 As the economy recovers, both in the UK and worldwide, the likely recovery process for markets is first local then domestic visitors and finally international visitors.
- 4.2 International visitors were not expected to return in large numbers until 2021. Business visitors rather than holiday makers are likely to be the first to return.
- 4.3 McKinsey² say of the air and travel industries:
- Estimated global restart Q1 /Q2 2021
 - Deep, immediate demand shock 5-6 times greater than Sept 11
 - 70-80% near-term demand erosion due to international travel bans & quarantines now prevalent in 130+ nations
 - Northern Hemisphere summer travel peak season deeply impacted since pandemic fears coincide with peak booking period

¹ VisitBritain – Britain's visitor economy facts

² McKinsey & Company - COVID-19: Briefing Materials March 25 2020

- Recovery pace faster for domestic travel (2-3 quarters); slower for long-haul and international travel
- 4.4 It is likely that traveling will become more difficult with extra requests, such as medical certificates being asked from travellers. Airlines will also have to implement additional controls and measures. There is the possibility of 14-day quarantine period for international arrivals which will be extremely damaging to the economy.
5. Retail – value and impact
- 5.1 Retail is a major attraction for international visitors. Estimated sales annually are over £6 billion, making international retail the UK's 12th biggest export sector. International retail supports 120,000 jobs directly.³
- 5.2 The UK's five top retail areas are:⁴
- The West End International Centre, London
 - Knightsbridge International Centre, London
 - Bicester Village, Oxford
 - Manchester City Centre
 - Edinburgh City Centre
- 5.3 Over 50% of sales in the two London International Centres, Bicester and Edinburgh City Centre come from international tourists
- 5.4 Of the £6 billion sales, nearly 60% (around £3.5 billion) is tax free (available to all non-EU visitors). Top tax-free shopping visitors to the UK are from:⁵
- Middle East/GCC (30%)
 - Greater China (27%)
 - South East Asia (14%)
 - USA (4%)
 - Russia (3%)
- 5.5 In those areas of concentrated international retail spending, where international spending accounts for 50% or more of sales, the delay in the return of international retail will result in severely reduced income, even after opening, with cost reductions needed to be made in employment and investment.
- 5.6 Most retailers operating tax-free shopping schemes retain a VAT refund operator to manage the administration of this scheme. These play a vital part in the management and growth of sales to international visitors through providing in-store infrastructure, marketing, and management data. They depend wholly on international sales for their income.
6. Other sectors reliant wholly or mainly on international visitors
- 6.1 While our core concern is retailers and the businesses that are vital in supporting them, such as the VAT refund agencies, we are aware that other sectors rely on income from international visitors in international centres and beyond including:
- West End Theatres – one third of West End theatre audiences are international visitors with the proportion for long running shows being significantly higher. West End theatres

³ Association of International Retail www.internationalretail.co.uk

⁴ Global Blue

⁵ Global Blue

operate on very low margins so the lack of international visitors, combined with initially low levels of domestic audiences will put them under great financial stress.⁶

- Hotels and restaurants – UKHospitality has already highlighted to the Government the difficulties for hotels and restaurants in surviving while operating with social distancing measures. In the International Centres, hotels in particular will suffer additionally from the temporary absence of international visitors.
- Large visitor attractions – Central London attractions are heavily dependent on overseas visitors. For example, overseas visitors account for over 90% of ticket purchasers at Westminster Abbey and St Paul's Cathedral, and over 50% of visitors at each of the 10 most visited attractions in central London.⁷
- Airlines – Airlines UK wrote to the Chancellor on this issue on April 25th highlighting the difficulties that airlines are facing until international travel restarts. Their letter is attached as an appendix to this briefing.
- Event organisers – an estimated 20% of the 9.1 million visitors to trade and consumer exhibitions in the UK are international. Some events such as World Travel Market and ICE Gaming are global leaders with higher proportions international visitors.⁸

7. Proposal

- 7.1 The major cost to these businesses are wages, rent and business rates. To manage cashflow, these costs need to be minimised while businesses are suffering significant loss of income due to the collapse in international visitor numbers.
- 7.2 We ask that the withdrawal of temporary COVID-19 business support measures, In particular, the job retention scheme, should be tapered to take account of the income generated by, and the time lag in the return of, international visitors.
- 7.3 A taper scheme might work as follows:
- 7.3.1 Businesses to submit self-certified or independently audited evidence of the proportion of income directly generated by or attributable to the activities of international visitors.
- 7.3.2 Government introduces flexibility based on the percentage of international spend to continue of furloughing scheme and payments in these sectors for a limited time that realistically reflects to recovery of the international visitor market.
- 7.4 We also ask the Government to introduce more flexibility in the furloughing scheme, as many European countries have done, to allow businesses to make the best use of staff to ensure business continuation, particularly during gradual re-opening over time. In particular it would help if part-time furloughing was allowed so that staff could work just two or three days a week, so reducing the costs for government and businesses while securing the long term viability of the business and minimising job losses.

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⁶ Information from the Society of London Theatre.

⁷ Information from the Association of Large Visitor Attractions

⁸ Information from the Events Industry Alliance

International Passenger Survey, Office for National Statistics
Top 50 markets by volume of visits (2018)

Country of residence	Visits (000s)	Visits Rank	Nights (000s)	Nights Rank	Spend (£m)	Spend Rank
USA	3,877	1	28,981	1	3,378	1
France	3,693	2	18,873	2	1,386	3
Germany	3,262	3	17,577	3	1,520	2
Irish Republic	2,782	4	8,347	11	895	6
Spain	2,530	5	15,185	4	1,110	4
Netherlands	1,954	6	8,547	10	716	8
Poland	1,817	7	12,326	7	453	15
Italy	1,808	8	9,500	9	784	7
Belgium	1,116	9	3,978	16	399	18
Australia	1,003	10	12,618	5	1,044	5
Romania	987	11	12,421	6	479	13
Canada	850	12	7,759	12	676	9
Sweden	827	13	3,836	17	447	16
Switzerland	808	14	5,238	15	460	14
Denmark	735	15	3,101	20	379	21
Norway	673	16	3,015	21	394	19
India	511	17	10,449	8	491	12
Hungary	437	18	3,107	19	138	38
Portugal	431	19	2,627	26	163	31
Czech Republic	412	20	1,954	32	121	40
United Arab Emirates	392	21	3,528	18	616	11
China	391	22	6,124	13	657	10
Lithuania	372	23	2,170	27	117	41
Austria	322	24	1,529	40	147	35
Israel (inc. Palestine)	278	25	1,857	33	229	26
Bulgaria	266	26	2,700	25	114	43
Japan	247	27	1,995	30	282	22
Hong Kong	243	28	6,013	14	385	20
Brazil	240	29	1,993	31	215	29
South Africa	224	30	2,739	23	260	24
New Zealand	216	31	2,804	22	255	25
Finland	214	32	995	47	114	44
Greece	200	33	1,813	35	115	42
Russia	181	34	1,236	44	153	32
Singapore	178	35	1,668	39	219	28
Turkey	177	36	1,452	42	143	37
Saudi Arabia	166	37	2,709	24	424	17
Malaysia	165	38	1,729	37	168	30
South Korea	161	39	1,263	43	134	39
Latvia	155	40	1,127	45	39	48
Mexico	153	41	1,031	46	81	46
Slovakia	142	42	950	48	38	49
Argentina	138	43	2,008	29	146	36
Iceland	113	44	361	50	80	47
Qatar	108	45	1,736	36	228	27
Nigeria	107	46	1,854	34	152	33
Kuwait	105	47	1,515	41	273	23
Pakistan	102	48	2,118	28	110	45
Thailand	93	49	1,689	38	147	34
Ukraine	92	50	417	49	29	50

The Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

25 April 2020

Dear Chancellor,

UK airlines last week welcomed the announcement that the Coronavirus Job Retention Scheme (CJRS) will be extended until the end of June, kept under review and extended if necessary.

Today, air travel remains curtailed across the globe as travel restrictions remain in place and countries grapple with the Covid-19 outbreak. The FCO is advising British nationals against all but essential international travel, indefinitely, and we currently have no certainty as to when global lockdowns will be eased.

Moreover, we anticipate that once restrictions are eased, the return to normality for international aviation will be gradual rather than sudden. Research by IATA has shown that a substantial number of travelers are likely to delay a return to travel, and a majority could wait until they have greater certainty around their own personal finances. There is early evidence of this trend in the Chinese and Australian markets, where domestic demand has continued to deteriorate or remain at substantially reduced levels even after the rate of new infections has fallen significantly.

We welcomed this week the start of a Restart and Recovery programme of work within the Department of Transport, which will attempt to address how and when global aviation can return to normal, and all the practical and regulatory matters that will need to be considered for this to happen, including from a public health perspective. This work will also examine economic and policy measures to support the sector, and we remain clear that further such measures will undoubtedly be required to get UK aviation back on a competitive footing and to maintain its critical role in the UK economy and as the third largest aviation market in the world.

Nonetheless, we anticipate a scenario in which demand returns gradually and carriers will increase capacity incrementally.

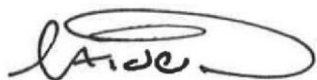
There is a danger that should the CJRS be withdrawn prematurely, carriers experiencing only a tentative revenue recovery will face a renewed cash crisis. We believe that the scheme will need to be extended beyond June, and that consideration should be given to measures – including a ‘tapering’ of the scheme or a review on a sectoral basis – to avoid aviation facing a cliff-edge post-June, whilst services are scaled-up. This is as critical to the UK’s air cargo sector – accounting for 40% of UK trade by value – as it is for commercial airlines (via which a majority of air cargo belly hold capacity is generated).

Additionally, the airports' ground handling service sector, with its labour intensive business model, is also supportive of seeing a similar CJRS taper whilst the aviation system witnesses a stalled and hard-to-forecast recovery in airline demand.

You will know, moreover, that carriers as well as the wider UK aerospace and airports sector continue to urgently call for more flexibility in the existing scheme to enable UK aviation and aerospace businesses to avoid unwanted redundancies and safeguard our staff's regulatory compliance.

UK airlines would welcome the opportunity to discuss these issues with you at any time and in more detail, if you would find that useful.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Alderslade', with a large, sweeping flourish at the end.

Tim Alderslade
Chief Executive
Europe Airlines UK

A handwritten signature in black ink, appearing to read 'Jason Holt', with a long, horizontal flourish extending to the right.

Jason Holt
Chief Executive, Western
Swissport