Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
Westminster
London
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October 21st 2021

Dear Chancellor,

Budget Submission

The Government has set an ambitious target for the recovery of the international visitor sector, aiming to return to the £28.4bn spending level of 2019 by 2023. Shopping is the single biggest element of spending by international visitors. VisitBritain estimates that retail sales account for around 25% of all international visitor spending. The Association of International Retail would like to suggest three areas where change in policy could help the Government to meet its target of reviving this important sector of Britain's economy.

The attractiveness of Britain as a destination, particularly for high spending, non-EU visitors, is declining relative to our European neighbours. Paris and Milan now have greater appeal to visitors from the Middle East and Far East than London and Edinburgh.

As international travel starts to return, we fear that this fall in competitiveness will lead to a far weaker recovery for this sector than expected. This is bad for British businesses in the travel, retail, hospitality, culture and entertainment sectors. It is also bad for the Treasury as lower spending by international visitors means less VAT. Non-European visitors paid around £3bn in VAT in 2019.

In addition to the direct impact on the UK economy, at a time when the Government is working hard to establish Global Britain, and as it holds its Global Investment Summit, it cannot be helpful for high spending potential investors to switch their international business and leisure trips from Britain to, say, France or Italy.

There are three areas where Britain is now less attractive to high spending non-EU international visitors.

1. <u>Visitor visas</u>

The UK's visitor visa product is falling behind that of the Schengen Area. In particular, the Electronic Visa Waiver Scheme available to visitors from four of the six GCC states is now less attractive than the Schengen product.

The Schengen EVW can be applied for at any time and allows multiple entry during a six-month period. The UK equivalent is only single entry and must be applied for at least 48 hrs before departure. This makes it easier and more attractive for high spending visitors from GCC countries to fly to Paris than to London. At a round table that AIR held with ambassadors and embassy representatives from the six GCC states at Conservative Party Conference earlier this month, the diplomats described how this issue was affecting the destination choice of many of their citizens.

In 2022 the EU plans to launch a new European Travel Information and Authorisation System which will be valid for three years, multi-entry and cost just 7 euros. This will put the UK offer even further behind.

The British Government has always committed to matching the Schengen visitor visa system. Having accepted the principle of Electronic Visa Waivers for these states, it would be a cost-free measure for the Government to introduce these minor changes to restore parity with Schengen.

In addition, there are a number of other cost-free changes to the visitor visa system that would help boost the UK's attractiveness to high spending visitors such as:

- Extending the Electronic Visa Waiver Scheme to other high spending markets, for example, China.
- Introducing a standard 10-year visitor visa, as countries like the USA have done, for Chinese visitors, and as was promised by David Cameron during President Xi's visit in 2015.
- Introducing a visa for the families of international students studying in the UK that lasts as long as the student visa to encourage parents to visit their children multiple times during their studies.
- Expanding the joint Schengen/UK visa application process in China – currently a pilot with Belgium - to Schengen countries with larger numbers of visitors, such as France, Italy and Germany.

We plan to raise this matter with the Home Office but want to make you aware of the economic consequences of the issue.

2. <u>Sunday trading in International Centres</u>

Britain's two International Centres (the West End and Knightsbridge) compete with similar centres in cities such as New York, Dubai, Tokyo and Beijing. International shoppers are surprised to find that in London, stores have to close at 6pm on Sundays. This makes the UK's International Centres less competitive.

With the two International Centres geographically defined in the London Plan, it is possible to add them to the existing list of exemptions in the 1994 Sunday Trading Act without having a wider impact on Sunday trading regulations throughout the rest of England.

New West End Company research, undertaken pre-COVID-19, estimates that this cost-free measure would generate an additional £250m in sales annually. We would like to see this simple measure included in a future growth Bill.

3. <u>Tax-free shopping – high street and airside</u>

Britain is now the only European country that does not offer tax-free shopping to visitors from outside the EU. The OBR estimates that this will lead to a drop of 38% in retail sales to non-EU visitors compared with 2019. That direct loss of £1.2bn of retail sales makes it even more difficult to meet the Government's ambition of returning international visitor spending to 2019 levels by 2023.

However, there are also likely to be indirect losses as high-spending visitors travel to the UK less often and spend less time here, preferring instead to visit countries where they can buy goods for 20% less than in the UK. With VAT on spending by non-EU visitors totalling over £3bn in 2019, the initial £350 million that

HM Treasury expects in additional VAT will be lost if spending in other areas (such as hotels, restaurants, travel, culture and entertainment) falls by just 10%.

Yet, at our Party Conference Round Tables, we saw new consumer research on visitors from China and the Gulf States. In 2019, visitors from these two regions formed just 4% of all international visitors to the UK but were responsible for around 60% of all tax-free shopping spending. This high level of spending was also reflected in their spending on hotels, restaurants, culture, travel and entertainment. The research showed that over 50% of Chinese visitors and over 60% of visitors from the GCC would reduce the number of times they visit the UK and the length of time they spend here as a direct result of ending tax-free shopping. This reflects the findings of HMRC's own consumer survey that was revealed during the recent Judicial Review.

Both the OBR and HM Treasury have stated that they had not taken the indirect impact of ending tax-free shopping into account when estimating the level of VAT they expect to raise from this measure.

We fear that the impact of ending tax free shopping will be a net loss of VAT, not a gain. The damage to Britain's international tourist appeal and our reputation as Global Britain will be done, but rather than resulting in a gain for HM Treasury, there is a strong probability that it will lead to a net loss of VAT.

In addition, the ending of airside tax free shopping threatens the financial viability of some of Britain's regional airports since it used to contribute up to 40% of their revenues. This will damage a vital infrastructure element of the Government's levelling-up ambitions. As a first example, despite forecasting a full-year profit before tax of approximately £151m – and even having already repaid the £73m received in furlough assistance to the Government – Dixons Carphone recently announced that it will permanently close all of its UK airport stores after 30 years in the travel retail industry, as a direct result of the removal of airside tax-free shopping.

With the reopening of international travel, the Government has a real opportunity to attract high-spending visitors and also divert sales away from the EU with a genuinely competitive tax-free shopping regime.

Given the potentially negative impact of the withdrawal of tax-free shopping both on British businesses and HM Treasury 's tax revenues, we support the call of the Chairman of the Treasury Select Committee for an independent assessment of the full impact of this measure.

Undertaking a full impact study has no downside for HM Treasury. If it demonstrates that the benefit to HM Treasury outweighs any loss, then there is no need for HM Treasury to change its policy. But if it shows that the net result is a loss of VAT then the Treasury can take action to prevent that from happening.

Businesses would be happy to contribute in any way to such a study.

Conclusion

In the 10 years to 2019, the value of the international visitor sector to the UK economy had grown by an average of 6% annually, around four times more than GDP. It is a sector that impacts all regions of the UK and should play a key role both in Britain's post-COVID-19 recovery and in the Government's levelling-up agenda.

We ask you to consider the three measures above as ways of contributing to the best possible future for this sector and Britain's economy.

Yours sincerely,

Jace Tyrrell

Jace Tyrrell
Chairman
Association of International Retail