**Tourism Industry Council**

*Brexit Response Paper*

*Tourism Industry Responses Collated for the Tourism Industry Council*

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# **1. Introduction**

On 23rd June 2016, the British public voted for the UK to leave the European Union. The Government has agreed that the outcome of this vote will be respected and acted upon by the UK Parliament.

At the Tourism Industry Council meeting on 5th September 2016, it was agreed that there were a number of significant potential impacts and opportunities for the UK tourism industry related to the UK leaving the EU. As such, the Council decided that it would develop this industry-wide document for the Department of Culture, Media and Sport (DCMS) and the Department for Exiting the European Union (DexEU**)**, identifying these issues so that they could be taken into account during the Government’s forthcoming negotiations on the UK’s new relationship with the EU.

# **2. Background**

## **a. Value to the UK economy**

Tourism is one of the UK’s largest and best performing industries. It is made up of 250,000 inbound, outbound and domestic travel and tourism businesses which are integrally linked to one another, often utilising the same infrastructure, consumer base and regulatory framework. As well as comprising high numbers of SMEs, the sector is also home to some of the world’s largest tourism companies who choose to locate, and often headquarter, their operations in the UK.

Together, these businesses make the tourism industry the UK’s third largest employer and a significant force in the UK economy. The sector provides jobs for 3.1m people (over 9.6% of the UK workforce) and contributes £127bn to the economy (7.1% of GDP). Crucially, the sector also underpins wider economic growth: for every £1 million the industry generates in GDP, it produces another £1.5 million elsewhere in the UK economy, and for every 10 direct jobs, it creates a further six across the country.

Notably, the tourism industry has been at the forefront of the UK’s economic recovery. Since the global economic recession in 2008, the sector has provided growth for the UK economy at a faster rate than most other industries and increased export earnings by 26.5%. The Office for National Statistics found that the tourism industry provided almost a third of the additional 900,000 jobs that were created in the UK between 2010 and 2013, and that these roles were located across the country in rural, urban and seaside communities.

Globally, the UK inbound tourism industry is the sixth largest in the world based on value, contributing £25.4bn per annum to the UK economy in export earnings with the revenue generated by these overseas visitors providing direct fulltime employment for 470,000 people in the UK.

Importantly, the World Economic Forum ranks the UK tourism industry as the fifth most competitive in the world, meaning that it is highly productive and able to provide significant growth for the UK if provided with a supportive regulatory environment.

## **b. Links with Europe**

The tourism industry’s growth is dependent upon visitors from other EU countries - of the UK’s top 10 source markets for inbound tourism, eight are other EU countries. The 23m visitors from other EU destinations (67% of all visitors to the UK) contribute around £10bn to the UK economy each year including taxes such as Air Passenger Duty and revenue to UK carriers. This expenditure directly supports around 185,000 full time equivalent UK jobs.

The reason for the high level of tourism to the UK from other EU countries is not simply due to their close proximity. A large number of EU regulations, rules and directives have been developed and implemented over the last 40 years that are specifically designed to facilitate the movement of EU residents across national borders. These range from agreements that facilitate the operation of UK companies in Europe such as the Aviation Single Market through to Consumer Protection initiatives such as the Package Travel Directive and procedures such as the EU visa channel that expedite border control checks and reduce waiting times for visitors.

This harmonised Single Market framework has encouraged business and leisure tourism flows between the UK and the rest of Europe, allowing the UK tourism industry to grow to become one of the largest in the world and a key component of the UK economy.

It is therefore important that the UK retains those current EU arrangements that facilitate tourism development and growth while, at the same time, identifying opportunities that may arise from leaving the EU.

# **3. Impacts**

## **3.1 DExEU Unit - Justice, Security and Migration: Employment**

### **a.** **Severe recruitment challenges to be compounded by Brexit**

The UK tourism industry employs 3.1m people (9.6% of the UK workforce) and has experienced considerable growth in recent years. For example, the increase in tourism revenue in 2015 alone was sufficient to create an additional 100,000 jobs in the UK economy.

This growth has been greater than the ability of UK educational and training institutions to provide skilled workers, resulting in tourism businesses becoming increasingly reliant on workers from other EU countries to fill vacancies in the industry

Figures from People 1st, the Sector Skills Council for the tourism and hospitality industries, show that employees in the sector that were born overseas has increased from 22% in 2011 to 24% in 2015 in response to the rapid growth of the UK tourism industry and increasing skills shortages in the local labour market. In London, 64% of the workforce are migrant workers. Of the number of migrant workers working across the sector in the UK, 45% are EU nationals.

Evidence from members of this Council suggests that the percentage of EU nationals working in the sector is up to 50% in London and the South East and as high as 65% for individual businesses. The increase in foreign nationals in the UK tourism industry is due to a number of factors including the rapid growth of the UK tourism industry, increasing skills shortages in the local labour market and a decreasing unemployment rate. The EU nationals work in a wide range of roles and are highly valued part of our skilled workforce. They provide valuable service and language skills, international experience and actively contribute to the UK providing a high quality experience for visitors.

**Impact**

As a sector, we already face challenges in terms of recruitment and retention. People 1st estimate that the sector will require 1.3m new staff by 2024 due to growth and high turnover rates. This high level of demand for staff means that 18% of businesses are already reporting that the staff that they are employing lack essential skills. This compares with just 14% of all businesses in the UK reporting this problem.

Even with freedom of movement between EU countries, the UK’s unemployment rate has dropped to under 5%, putting pressure on tourism businesses trying to source workers. This high level of demand for staff means that there are currently 10,000 unfilled positions in the tourism sector and that 21% of businesses reporting that the staff that they are employing lack essential skills. This compares with just 15% of all businesses in the UK reporting this problem.

Evidence from the People 1st shows that dependency on EU nationals increases where local unemployment rates are low. This strongly suggests that EU nationals are not taking tourism jobs that could be filled by UK citizens, but rather they are filling positions where there are no UK nationals available.

Should the industry suddenly cease to have access to this broad talent pool, particularly when the UK unemployment rate is so low, it would present severe, fundamental operational challenges. Tourism businesses are already engaged in expanding apprenticeships, work programmes and retention drives. However, initial analysis indicates this shortfall cannot be filled by these measures in the short to medium term, exacerbating current staffing and skills shortages. As staff shortages increase, this will force up wage costs for businesses.

**Evidence**

The People 1st report, Migrant workers in the hospitality and tourism sector and the potential impact of labour restrictions, shows that 11% of all tourism employees in the UK are EU nationals. Anecdotal evidence from members of this Council show that the actual figure is much higher however.

The percentage of migrant labour from the EU increased to 46% between 2011 and 2015, reflecting the tightening labour market, where unemployment fell from 8.1% 5.4%. This indicates that while the overall level of EU nationals working in the industry is 11%, as the UK employment rate has decreased, the UK tourism industry has become increasingly dependent upon EU nationals. As such, if the tourism industry is to continue to grow and provide the UK with increased export earnings, then a mechanism needs to be established by which businesses can source the staff required.

There are particular staff shortages for chefs in pubs and restaurants who need specific skills. It also should be noted that many businesses in major towns and cities rely on overseas workers and it would be impossible for all of these jobs to be filled by the local workforce. In pubs in particular, but also elsewhere in hospitality, soft skills are as important as skilled workers.

**Desired Outcome**

To help resolve the issue of finding skilled staff, the tourism industry would want the Government to negotiate a deal with the EU that retains the ability of EU nationals being able to come to the UK to work in the UK tourism industry. If retaining the free movement of EU national to the UK is not possible then the current migration system needs to be revised before the UK leaves the EU.

One way to achieve this is to reopen TIER 3 and have the Migration Advisory Committee work with People 1st to monitor staffing requirements of the tourism and hospitality industry and develop criteria for allowing people into the UK fill shortages in the industry.

We would also urge the Government to consider opportunities for targeted use of work permits for priority sectors and a review of the Shortage Occupation List to facilitate business growth.

In terms of work permits, many tourism destinations such as London and businesses that predominantly facilitate corporate travel operate year-round and there is little seasonal impact. As such, short-term solutions will not address recruitment challenges or support the sector’s commitment to grow and develop skilled staff to work in the industry for the long-term.

Those employed in tourism work in a range of skilled and so-called ‘unskilled’ or entry-level roles. Many of the sector’s employees, even those in entry level positions, have excellent customer service, culinary and language skills. We would therefore ask Government to consider these factors when evaluating what constitutes a ‘skilled’ job in relation to any future work permit system.

**Experts**

People 1st

BHA

BBPA

### 

### **b. Employment rights related to the UK’s outbound travel sector**

The EU Posted Workers Directive is a vital component in the operational delivery of UK travel businesses, enabling travel businesses to temporarily place workers in other EU Member States without the need to register individuals in each territory for the purposes of taxation or social security (Directive 96/71/EC). Many tour operators, especially SMEs and those without registered businesses in other EU countries, rely on this EU regulation to reduce red tape and simplify their operations across the EU. The millions of UK holidaymakers within the EU each year also take comfort from the ability to seek help from an English-speaking representative in their resort. The removal or restriction of these employment rights would represent a substantial burden for UK travel companies, harming their ability to compete with European competitors and significantly increasing operating costs and complexity. The EU outbound industry strongly believes that these employment rights should be retained in negotiations with the EU on a future trading relationship.

In addition, there is a close relationship between the movement of workers and continuation of market access in the transport sector that must be borne in mind during negotiations. A large proportion of international airline, coach and rail staff are EU nationals and any restrictions on the ability to move these staff between the UK and the EU for operational purposes would likely have serious repercussions for travel to and from the UK.

**Experts**

ABTA

Confederation for Passenger Transport

## **3.2 Visas and travel facilitation**

### **a. Visa liberalisation/travel facilitation**

In terms of boosting tourism from alternative markets, data from the Office for National Statistic’s International Passenger Survey shows that the UK receives around 2.5m visitors from countries needing a visitor visa to enter the UK. These visitors spend around £4bn in the UK during their stay, provided direct employment for over 76,000 people in the UK.

What is especially noteworthy of visa-national visitors to the UK is that they spend an average of £1586 per person per visit – almost three times the amount (£560) spent by visitors from visa waiver countries.

In addition, over 550,000 people, ranging from students through to business executives, come to the UK each year to improve their English. This sector contributes £1.1 billion and supports around 26,500 jobs. Students’ contribution to the UK economy does not end with the fees that they pay to English language schools. In 2014 there were over 235,000 juniors attending holiday programmes.

Research by London First, ‘London Calling: International students’ contribution to Britain’s economic growth’, shows that 60% of students, including alumni, said they are more likely to do business with the UK as a result of studying here.

**Evidence**

The Tourism Alliance has shown that the UK’s share of outbound travel from BRIC countries that require visas has almost halved over the last 10 years despite significant improvements in the product and services provided by the Home Office during this period. One of the main reasons for this reduction in the UK’s share of the BRIC markets was the introduction of biometric visas, which lowered the competitiveness of the UK visa product. While the industry does not advocate reducing security by removing the need for biometric data, there needs to be a thorough review of the UK visa offering and a cross-government strategy developed for regaining the UK’s share of key overseas markets.

The Government made improvements to the Chinese visitor visa process during the last parliament. However, the UK China Visa Alliance suggests that the UK still underperforms in the number of Chinese visitors it attracts compared with other major European countries. The industry needs clarity on the impact of Brexit – in particular on the UK-Belgian Visitor Service scheme which was a key aspect of the recent improvements – and on our future ability to partner with EU countries on joint processing initiatives. While officials have stated that leaving the EU will have no impact on arrangements such as the Belgium tie-up, there needs to be official confirmation of this. The Government should look to expedite plans for the proposed 10 year tourist visa – particularly in light of Schengen countries introducing biometric visas – particularly in light of Schengen countries introducing biometric visas.

We should also look to extend improvements in the visa processing system to other growth destinations. A first step in this approach is to introduce the two-year low cost visa in the Indian market as part of a new trade deal with India. The Royal Commonwealth Society highlights that Britain’s market share of India’s outbound tourists has halved since 2006, despite the market growing at 10% each year, at a cost of £500 million to the economy. Streamlining tourist visas for Indian visitors would send a very positive signal that the UK is ‘open for business’ as we look to enter into trade negotiations with non-EU growth markets.

There is also the need to separate student numbers in immigration figures, acknowledge that facilitating the number of people coming to the UK to study is an essential component of generating tourism and economic growth and develop a specific plan to realise this. This plan needs to include a visa system for students that is international competitive.

**Experts**

UK inbound

English UK

Tourism Alliance

Cruise Lines International Association (CLIA) / Royal Caribbean

### **b. European Travel Information and Authorisation System (ETIAS)**

Due to heightened security concerns after the recent terrorist attacks in Brussels and Paris, the EU Commission has just published proposals for an ETIAS system based on the US scheme. This would require international travellers that are exempt from visa requirements to apply for permission to travel to the EU. The proposed ETIAS would last for five years with applicants able to apply online at a cost of 5 euros.

It is expected that, when the UK leaves the EU, UK nationals travelling to the EU will be subject to this new requirement, thereby increasing the costs and inconvenience of travel. It is also possible that the UK will impose a similar regime on visitors from the EU which would be a deterrent to travel to the UK.

**Impact**

At the moment, EU nationals are able to travel to the EU using just their national identity card, which most people carry in their wallet. Requiring EU nationals to carry their passport (or even having to apply for pre-authorisation for travel to the UK should the UK ‘retaliate’ to the proposed ETIAS) would increase the inconvenience and cost of travelling to the UK. This, in turn, would decrease the desirability of the UK as a destination and increase the perception in European markets that the UK was an unwelcoming destination. As the EU represents two thirds of all visitors to the UK, this has the potential to cause a significant reduction in tourism from the EU. Similarly, if UK nationals have to pay for an ETIAS, this will ultimately impact on the desire to travel to Europe which will, in turn, impact transport providers in the UK.

**Desired Outcome**

That the UK reaches an agreement with the EU that ETIAs are not required for travel between the UK and the two areas.

### **c. Border Control**

Although the UK is outside the Schengen area there are a number of ways by which the UK’s current border control regime facilitates the movement of EU nationals visiting the UK. For example, EU nationals are subject to a “soft border” regime compared to citizens of other countries who have their passports scanned and are questioned by Immigration Officers regarding the purpose of their visit. The new automated e-passport gates that can only be used by EEA nationals are part of the soft border approach and are viewed by the Home Office as being one of the main ways by which KPIs for passenger processing can be maintained in the face of decreases in Border Force funding.

In addition, the Common Travel Area encompasses the United Kingdom, the Channel Islands, the Isle of Man and the Republic of Ireland. Under the rules associated with the CTA, a person who has been examined for the purpose of immigration control at the point at which they entered the area does not normally require leave to enter any other part of it. In addition, there is a trial system of mutual recognition of each others’ visas for onward travel within the Common Travel area for Chinese and Indian nationals.

Backing up the “soft border” regime and the Common Travel Area are security-related information sharing initiatives that have developed over many decades within the EU, including co-operation of the Member States’ intelligence services, police forces, and judicial authorities, as well as Europol, Eurojust, EU INTCEN, and Frontex (the EU border management agency).

**Impact**

Removing the “soft border” regime and requiring EU visitors to enter the UK through the non-EEA lanes would have two main impacts. First, it would require the Home Office to commit significantly more resources to processing EU nationals and, even if there this was possible, there isn’t the physical space in most terminals (particularly in London) for the facilities required. Second, even if significant new resources were allocated and space was available, queuing times for European visitors would increase significantly from the current service level agreement of 25 minutes for people entering via the EEA channel to 45mins for processing people in the non-EEA channel.

This increase in passport checks, processing times and crowding would act as a deterrent to visitors from the EU as it would both make the UK seem like an unwelcoming destination for EU visitors and reduce the UK’s competitiveness in the Pan-European tourism market by increasing the inconvenience of travelling to the UK.

Brexit also poses a serious risk that the policing and security agencies will experience reduced access to many, if not all of the EU security-related information sharing initiatives. A challenge for the UK in coming months will be to decide whether to seek to remain part of Europol and the European Arrest Warrant, which is based on mutual recognition of Member States’ judicial systems. Any loss of Europol’s security resources and connectivity will make the UK more reliant on bilateral collaboration with Member States, which would be considerably more complex and time-consuming.

**Evidence**

In 2015, there were 34m visitors to the UK of which 23m (67%) of visitors to the UK coming from other EU destinations. If EU nationals were to be subject to full border checks, this would require the Border Force to increase resources allocated to this by 200%. There would also need to be additional space allocated to immigration control operations in airports and other ports of entry - this cost would have to be taken on by industry as both airports and ports are privately owned - and the renegotiation of KPIs for visitor processing in order to maintain the UK’s status as a competitive destination for travel within Europe.

**Desired Outcome**

The solution would be to reach an agreement with the EU that the EEA channel would continue to operate in the UK and that EU member states would allow UK citizens to use the EEA channel in EU countries. For this to operate effectively, the UK should also pursue, as far as possible, continued involvement with EU security institutions, especially Europol.

In addition, this all presents an opportunity to reassess how the Border Force operates a safe, secure and efficient border and, particularly in the context of London and the South East, how it responds effectively to demand levels. There is also the opportunity to re-evaluate the risks posed by visitors from other countries and look at using the “soft border” channel to process visitors from low-risk countries such as Japan and South Korea, thereby reducing pressure on the Non-EEA Channel.

**Experts**

AoA

## **3.3 DexEU Unit – Market Access**

### **a. Single Aviation Market**

EC Regulation 1008/2008 is the founding regulation of the Single Aviation Market. Aviation is legally unique: it is separate from trade agreements and does not form part of the World Trade Organisation (WTO) system. Instead, countries negotiate bilateral or multilateral air services agreements to provide airlines with the legal rights to fly to certain places. These can be very restricted (e.g. one flight a week to a specific airport only) or very liberal (anytime, anywhere).

Within the EU, air services fall under the Single Aviation Market. This single market for aviation was created in the 1990s. Air transport had traditionally been a highly regulated industry, dominated by national flag carriers and state-owned airports. The UK was a leader in the drive to liberalise this market within the EU, with success: the internal aviation market has removed all commercial restrictions for airlines flying within the EU, such as restrictions on the routes, the number of flights or the setting of fares. All EU airlines may operate any route within the EU, including domestically within an EU country (cabotage rights). This has been extended to the EEA in full and in more limited fashion to Switzerland and, through the European Common Aviation Area (a regulatory convergence mechanism), to accession countries.

There is an external dimension to the Single Aviation Market, which has seen external air services agreements negotiated by the EU. Of those, the most important for the UK is the 2008 EU-US Open Skies Agreement that enables any EU or US airline to fly any transatlantic route. Access to UK airports, particularly the largest airports in the South East, were one of the main drivers for the US to conclude the 2008 agreement, as it is the most important hub for North Atlantic traffic to and from the EU. Other countries covered by an EU-level multilateral air services agreement are Canada, Georgia, Israel, Jordan, Moldova and Morocco. Negotiations are ongoing or have been authorised with the Association of Southeast Asian Nations (ASEAN), Brazil, Mexico, Qatar, Turkey and the UAE.

The benefits for consumers have been profound: prices have fallen significantly, new business models appeared (e.g. low-cost carriers) and impressive progress has been made in areas such as the choice of routes on offer. Airports across the UK have benefitted from this liberalisation, with many flourishing because of the new airlines and routes.

**Impact**

Without the UK’s membership of the EEA or a new EU-UK air services agreement and new agreements to replace the EU’s multilateral air services agreements, airlines will lose the legal framework for flying between the UK and EU airports, as well as between the UK and airports in third countries such as the US and Canada which are covered by the EU multilateral air services agreements. UK airlines that currently fly between and internally in EU27 countries would also lose their ability to continue to operate those flights, unless they move to an EU27 country.

The failure to agree a new air services agreement would seriously disrupt important tourism links for the UK, the EU27 and countries like the US. A lack of legal certainty on air routes would hamper investment in new routes and in existing routes, if they can still be flown. This would impact UK aviation’s, and by extension the UK tourism sector’s, ability to generate jobs and economic growth. It could also result in increased costs to the consumer and risk more limited connectivity, particularly from smaller airports.

There is no WTO-style fall-back option. While the UK has had bilateral air services agreements with most (but not all) EU27 countries, these date from a different era and are no longer fit for purpose. There is also a question over whether they are still legally valid since the creation of the Single Aviation Market superseded them. The same applies with the UK’s bilateral agreements with non-EU countries where there is now an EU-level air services agreement, like the US.

**Evidence**

Aviation is, like tourism, one of the UK’s success stories: the UK has the largest aviation market in the EU and the third largest aviation market in the world, after the USA and China. A 2014 Oxford Economics report, commissioned by the AOA and partners, calculated that aviation contributes nearly £52bn or 3.4% to UK GDP and employs around one million people (3.3% of total employment). The report also calculated the catalytic effects of aviation in relation to tourism, concluding that aviation enables tourism to add another £20bn to UK GDP and supports around 500,000 jobs in tourism.

Of the 36m inbound tourism visitors to the UK in 2015, 73% travelled by air. The top ten inbound markets by volume are all, except Australia, countries with which the UK has an EU-level air services agreement with, and this applies to seven of the top ten inbound markets by value (exceptions are Australia, China and Saudi Arabia). In relation to outbound tourism, 76% of all UK holidays are in EU countries and the top five destinations are all countries with which the UK has an EU-level air services agreement with. More broadly, the EU is the UK’s single biggest destination, accounting for 49% of passengers and 54% of scheduled commercial flights, followed by the US. Put simply, it is the infrastructure that enables industries like tourism to do well.

There is no international precedent for what happens when air services agreements fall away without a replacement.

**Desired Outcome**

The UK Government should aim to maintain continued access to the Single Aviation Market and the EU’s multilateral aviation agreements or replace these with new agreements that replicate the existing provisions.

If access to the Single Aviation Market cannot be agreed, then it is paramount for the continued success of the UK airports sector and all those who rely on aviation, such as tourism businesses, that a new UK-EU air services agreement is negotiated as a matter of priority. The UK Govt should also be doing all it can to secure agreements with other markets, e.g. UK-US.

**Experts**

Easyjet

AirlinesUK

London First

### **b. Aviation Regulation**

The Single Aviation Market has seen the introduction of EU-wide regulation that facilitates travel. With regards to airports, this includes the Airport Charges Directive that applies to all airports handling more than 5m passengers and to the largest airport in an EU Member State.

The UK also participates in numerous technical programs to facilitate the movement of both passengers and cargo. This includes Single European Sky (including the Single European Sky ATM Research programme) and the European Aviation Safety Agency (EASA), an EU agency that took over the functions of the Joint Aviation Authorities in 2008. Among other tasks, EASA certifies airplane technology and undertakes safety inspections and enforcement action. Returning these tasks to the CAA would be severely disruptive for the UK aviation sector.

Closely linked to the Single Aviation Market are specific competition rules. An Aviation Guideline was adopted at the EU level in 2014. This Guideline set out the conditions under which Member States and local authorities can grant state aid to airports and airlines in the EU, which has had an impact on the UK Government’s ability to designate Public Service Obligation routes, for example.

**Impact**

Aviation is by its nature an international sector and benefits from common global standards. In order to secure full market participation in the Single Aviation Market, the UK is likely to have to continue to adhere to or align with a common regulatory baseline on Single European Sky and EASA, for example.

**Desired Outcome**

Airports would like to see continued close cooperation between the UK and EU, such as the European Aviation Safety Agency, Single European Sky and security arrangements.

**Experts**

AoA

Airlines UK

### **c. Customs Union**

If the UK leaves the customs union, this could have a considerable impact on all UK tourism businesses that import products from other European countries and that export to them. As mentioned in Section 3.3e (Reliance on Imports), there will be significant implications for accommodation, pub and restaurant businesses that import both food and drink and fixtures and fittings from Europe. However, in addition, leaving the Custom’s Union will impact on other sectors of the UK tourism industry

The UK has a very large Events industry which accounts for 35% of the UK visitor economy and provides employment for some 530,000 people from apprenticeship level upwards. Many of the leading exhibition organising companies operating globally are UK companies, making the industry a significant export earner through staging and managing events across Europe.

Additionally, the UK’s skills and expertise in the design of stands and content (digital media, film, technical exhibitory) are leading the world in the development of cutting edge business-to-business (B2B) and business-to-consumer (B2C) exhibitions and trade fairs.

Finally, the UK Cruise Industry relies on a number of sites throughout Europe to stock and provide timely goods to its vessels, based throughout the EU. These range from consumables and hotel products to perishable foods and highly valuable spares. The strength of their operations is driven by the fact they can reach the vast majority of ports within 24hrs and with no significant delays as they pass through the borders of the member states.

**Impact**

The UK events sector relies on the movement of considerable amounts of equipment in and out of the UK in order stage shows and festivals while the business sector relies on the ability to take business goods across borders in order to attend trade fairs, shows and exhibitions.

Not remaining part of the Customs Union will also damage the ability for the UK Cruise Industry to work multi-nationally and could cause undue delay given the large number of checks that would have to take place at major ports in the UK. This could lead to cruise lines choosing to operate only between ports still governed by the Customs Union, to the detriment of UK ports and destinations.

If we do remain part of the Customs Union, or have agreement to move goods freely between the UK and EU without tariff, there is a massive opportunity for the UK economy. The UK is a mature cruise market, unlike many European markets, and continuing participation in the Customs Union paves the way for further UK deployment, increased tax revenues and more investment in local economies.

**Evidence**

The BVEP report, Events are Great Britain, highlights the size and importance of the Business Events industry to the UK economy. If the UK leaves the Customs Union with the EU, there is the potential for a significant impact on the Events and Business travel sector depending on subsequent tariffs on the movement of goods between the UK and the EU. At the very least, there would be much more paperwork for UK businesses to comply with and this would impact on the ability of the event sector to bid for, and stage, events in Europe and for UK destinations to host events for European exhibitors.

For the UK cruise market, 2015 represented the highest growth rate for eight years – an increase of 9% or 145,000 more passengers. Most of this increase came from the additional 101,000 UK port cruisers, 14% more than in 2014. Trends in the UK and Ireland ocean cruise market can often be pinned down to the changes in market capacity.

The UK is also the second largest source market for cruise passengers in Europe with 1.75 million cruises taken by residents during 2015. It also had the second highest level of direct expenditures with €3.26 billion, an increase of 3.3% over 2014. Expenditures rose in each of the four major categories of direct spending. This growth was principally spurred by the 10.6% increase in the combined spending of passengers and crew and a 13.6% increase in spending at UK shipyards.

**Desired Outcome**

The UK business, events and cruise industries are dependent upon the UK remaining part of the Customs Union in order to continue to be competitive in the European market. Continuing to be part of the Customs Union would also benefit other sectors of the UK tourism industry such as hotels, pubs and restaurants which source food, drink and other goods from European countries.

In addition, these sectors would greatly welcome advice from government on how the UK’s new trading arrangements could impact costs, thereby allowing business planning.

**Experts**

BVEP

Cruise Lines International Association (CLIA) / Royal Caribbean

BBPA

### **d. Industry Investment**

Notwithstanding the fall in the value of the pound which delivered a short-term boost, the medium to long-term outlook for inbound and domestic tourism in the UK is challenging and investors are acutely aware of this.

Up until the referendum the UK hotel industry was experiencing considerable growth on the back of an improving domestic economy and increasing inbound tourism figures. These factors were boosting investment in the sector and the construction of new accommodation stock.

The weaker pound resulting from the referendum will impact the transaction market by making hotels relatively cheaper for overseas investors in their local currency. This will be a welcome effect given that the UK hotel market has become more fully valued in recent times, with many of the US funds that had been active in the UK market redirecting their efforts to mainland Europe. The opposite side of this effect for overseas investors who already own hotels will be that the value of their assets will have taken a hit from the currency devaluation.

According to Alix Partners, until it is clear as to the future relationship that the Government wants with the EU, then investment in the tourism industry will remain depressed. If this relationship is outside the Single Market, then this will have a significant detriment impact on investment.

**Impact**

The focus for investors now is to assess future trading which, given the uncertainty over Brexit, could be challenging. This uncertainty could well depress hotel transaction activity.

Alix Partners states: “We remain cautiously optimistic that the UK (and European) hotel sector will remain an attractive source of investment for those global investors who are interested in the medium to long-term growth perspective as well as knowledgeable intraregional investors seeking to consolidate their ownership position in markets that they know well. However, this is reliant on the UK remaining an investor-friendly market post-Brexit—if not, London as a financial centre could be badly hit, which in turn could lead to companies relocating to Europe and jobs being lost in the City”. Such developments would also negatively impact hotels.

**Evidence**

The latest Hotel Bulletin, published by HVS, AlixPartners and AM:PM, outlines the fact that hotel transactions in Q3 totalled £522m in value, nearly half of that recorded in Q3 2015. Total transactions for the year-to-date were also significantly below that of last year.

The report concludes that, as there is still no strong indication of what form Brexit will take, this uncertainty has led to indecision and delays in hotel property transactions.

**Desired Outcome**

That the Government informs the industry as to its intensions with regard to the UK’s future relationship with the EU so as to provide tourism businesses and investors will a degree of certainty regarding investment decisions. To maximise investment, and therefore growth, the UK must remain part of the Single Market.

**Experts**

Hilton

IHG

BHA

### **e. Reliance on Imports from the EU**

The tourism sector is rely heavily on importing foodstuffs – many hotels in the UK import approximately 50% of their foodstuff, the majority of which come from Europe. Food and beverage spend accounts for 10% of a hotel’s costs – this figure is clearly higher for the average restaurant. Imported food and beverages are also important for pubs, which are one of the main attractions for overseas visitors to the UK.

Due to the low value of the pound, British food exports have increased and, in many instances, this has led to an increase in the cost of the product in Britain. Where British products have not increased in cost, the prices are still high relative to EU products due to economies of scale.

While the majority of the construction industry materials are domestically sourced the consensus is that the dramatic fall in the value of sterling will immediately increase the costs of imported materials, which will have a knock-on effect on the construction prices that are currently increasing beyond reported CPI inflationary increases. In the hotel industry, which has a greater exposure than other construction sectors to EU imports (high relative high value of fixture fittings and equipment sourced from the EU), reduced access to the single market and any introduction in tariffs would have a negative impact on costs.

**Impact**

The UK leaving the EU has the potential to significantly increase supply chain costs for the sector depending on the UK’s future trading arrangements and tariff structures with the EU. Businesses are already experiencing pressures due to the fall in the value of the pound and subsequent increase in import costs. While businesses will start substituting local products for imported products where these are available and competitive, it is expected that hotels and restaurants will still source 50% of food and beverage products from the EU following Brexit.

In terms of hotel build costs, the impact on the sector will depend on any future tariff schedule. More analysis and guidance from government about possibilities is required to allow businesses to provide more data.

It is clear however that if tariffs are introduced on the tourism industry’s imports from the EU, this will increase the cost of UK tourism products and services. As previously noted, price elasticity research by VisitBritain shows that an increase on the cost of the UK tourism product by 1% will result in a decrease in inbound tourism revenue of 1.3% meaning that the imposition of even small tariffs on the supply chain will have a significant impact on earnings.

**Desired Outcome**

To reduce the impact of rising costs on the sector, the UK must remain part of the Single Market or gain as close a relationship as possible.

**Experts**

Hilton

BBPA

BHA

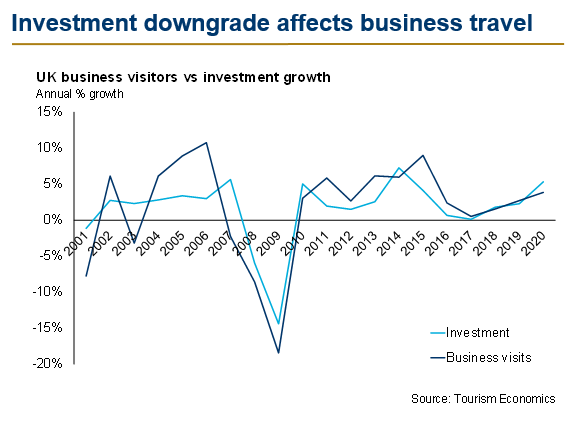
### **f. Corporate Travel**

Business travel provides £5.4bn in revenue to the UK economy (approximately 20% of total tourism revenue) and supports 100,000 jobs in the UK. Of this, around half comes from business travellers from other EU countries. Investment activity is a key indicator of corporate travel so business confidence is critical (see fig 1).

In its latest analysis, Oxford/Tourism Economics has downgraded its GDP growth forecasts and predicts a significant slowdown in corporate travel both to and from the UK in 2017/ 2018.

Historically, regional hotel performance has been closely aligned to GDP growth. Given lower growth expectations, performance improvement caused by the factors mentioned above, which will impact primarily impact leisure trade, may be mitigated or even outweighed by the negative impact of subdued economic growth, which will primarily impact corporate trade.

Fig 1:

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**Impact**

Uncertainty means it is hard to predict the impact on corporate travel – although businesses are already reporting meetings and events are being cancelled in hotels.

**Desired outcome**

Uncertainty is bad for business and tourism is impacted as a result. Ideally the needs of key companies in the UK will be heard to ensure they retain confidence in the UK as a location for their offices and activities.

**Experts**

BVEP

Hilton

IHG

### **g. Other Travel Agreements**

In addition to the Single Aviation Market and the Airports Charges Directive, there is a large range of other EU agreements that help facilitate tourism. This section highlights these agreements and identifies experts for determining the impacts if the UK was to withdraw from them.

Coach and Bus Services

The carriage of passengers by coach and bus is governed by EC Regulation 1073/2009, under which any road passenger transport operator possessing a valid Community Licence, has access to the whole international EU road transport market. This regulation also allows any carrier who operates road passenger transport services and who holds a Community licence to operate cabotage operations for the following services: special regular services, covered by a contract between the organiser and the carrier; occasional services; and regular services, in the course of a regular international service.

This regulation facilitates not only coach tours to and from the UK but also European tours where the visitors are collected from a UK port of entry such as Heathrow. It also facilitates regular bus service providers such as Eurolines and Megabus which provide services between UK and European destinations.

* Expert – Confederation for Passenger Transport

Rail Services

The First Railway Directive (EC Regulation 91/440) sets out an EU law framework and requirements for railways in the EU to allow open access operations on railway lines by companies other than those that own the rail infrastructure. The legislation was extended by further directives to include cross border transit of freight.

These rail directives allow for the operation of services such as Eurostar and the Euro Tunnel car and freight services, as well as the onward travel of trains that use the Channel Tunnel on the European rail network.

* Expert - ATOC

Mutual Recognition of Qualifications Directive

The Mutual Recognition of Qualification Directive covers any form of work that would normally be restricted to people who had gained a professional qualification, and ensures EEA nationals who have gained a similar professional qualification in another member state can access national labour markets across the EE14. In regards to tourism this applies to instructors in activities such as diving or skiing.

* Expert – Outdoor Industries Association

Passenger Rights

EC Regulation 261/2004 sets out the entitlements of air passengers when a flight that they intend to travel on is delayed or cancelled, or when they are denied boarding to such a flight due to overbooking.

Similarly, EU Regulation 181/2011 sets out the rights of passengers in bus and coach transport throughout the EU. These rights, including the right to information or compensation in the case of delay or cancellation, complement similar rights for sea and inland waterway, air and rail passengers.

At the moment the Passenger Rights requirements are controversial due to the high level of compensation compared to the cost of tickets. Withdrawing from the European Union provides the ability to re-examine the balance between the interests of UK airlines and those of consumers.

* Expert - ABTA

EHIC

The European Health Insurance Card gives citizens the right to access state-provided healthcare during a temporary stay in another EEA country or Switzerland. With almost 70m visits per annum between UK and EEA countries it is important that this reciprocal health care arrangement is continued. This is especially true as many UK residents continue to travel with inadequate levels of travel insurance.

* Expert - ABTA

Passenger Name Records Directive

The EU has agreed harmonised rules for sharing passenger data across the EU. If the UK were to leave the EU, cooperation on counter-terrorism and security matters would be expected to continue, though the exact nature of this relationship would be open to question.

* Expert – AirlinesUK

Pet Passports

EU Regulation 576/2013 controls the non-commercial movement of pet animals across the borders of Member States. Commonly known as the Pet Travel or Pet Passport Scheme, it provides harmonised rules on travelling with pets and has made it easier for EU citizens take their pets on holiday with them across EU member states.

Retaining this regulation is important to support the travel of people to and from the UK who wish to continue to take their pets with them on holiday.

* The Caravan Club

### **h. Motor Vehicle Regulations**

There is a range of European Directives that facilitate the movement of both private and commercial vehicles across European borders. The movement of vehicles both to and from the UK is important to tourism flows and therefore efforts need to be made to ensure that there continues to be harmony between future UK and EU requirements. The main relevant Directives are as follows.

European Driving Licence

The European Driving Licence which replaces the 110 different licence styles across the member states of the EU and EEA, is currently regulated under the 3rd European Driving Licence Directive which took effect from January 2013 (Directive 2006/126/EC). Its aim was to reduce the risk of fraud and to facilitate mutual recognition of licences (for example penalty points, driver bans), aligning with the principle of freedom of movement and at the same time contributing to road safety ambitions. Obviously, freedom of movement underpins tourism and car-based travel is a key enabler which carries with it the ability to spread the economic benefits of tourism to all parts of EU member states and EEA countries.

For those leisure vehicle drivers who tow a caravan (or indeed any kind of leisure trailer) the 3rd European Driving Licence Directive imposes a combined weight limit of 3.5t before an additional period of training to acquire a B+E licence category is required, as well as a weight limit for motorhomes of 3.5t before a commercial licence is required. The potential to legislate under UK law therefore represents an opportunity for the sector if former weight limits were restored, and the ability to lobby for a more logical licence regime for motorhome drivers was possible.

The mutual recognition of driving licences and driver certificates of professional competence is extremely important for coach drivers as it ensures there are limited delays at borders and with EU enforcement officials. It also enables EU nationals to be employed as coach drivers. Without this mutual recognition then it could restrict the ability of UK coach tourism operators to employ sufficient drivers to operate these tours both domestically as well as internationally, which would have a knock-on effect on those hotels and associated attractions and food outlets which depend primarily on coach tourists as their primary source of income.

Directive 2012 / 35/EU – Driving Licence for Motor Caravans above 3.5t

Directive 2012/36/EU states that driving licence category C1 is heterogeneous and includes a wide range of vehicles of which vehicles for “leisure or personal usage” are named as one group. Unfortunately, the easements foreseen by Directive 2012/36/EU only refer to the driving licence test so that the newly introduced driving licence category C1 with the code 97 (in brief: “C1 97”) does not constitute a valuable / notable difference to category C1. C1 97 remains as unattractive for private usage as the C1 commercial vehicle category has always been.

**Desired outcome**

A sustainable correction of the EU Driving Licence Directive or for the UK to introduce domestic legislation allowing driving licences for privately used vehicles above 3.5 t to be excluded from the C1 driving licence category framework which is intended for commercial purposes.

European Norms (EN)

The caravan and motorhome industries have access to a wide range of European Norms which govern the construction, design and safety standards of leisure accommodation vehicles available for use in the UK.

**Impact**

While most ENs relevant to Leisure Vehicles are published by the British Standards Institute (BSI), current work plans in the EU and at related committees such as CEN have a number of revisions and proposals to existing standards under review. The future status of existing ENs is uncertain and it is possible that these may even be withdrawn following the UK exit from the EU.

**Desired Outcome**

It is vital that all existing Leisure Vehicle ENs, those in the process of review, or new ENs which are the culmination of years of technical input from across the industries are retained and continue to be published by BSI going forward.

**Experts**

National Caravan Council

The Caravan Club

Confederation for Passenger Transport

## **3.4 DExEU Unit – Domestic Consequentials**

### **a. EU Funding programmes**

At present, £43m of public funding is allocated to international tourism promotion – an amount that has remained relatively constant since 2008. However, levels of public funding for domestic tourism have decreased by around 58% from approx. £197m to approx. £84m over this period. This decrease in public funding for tourism means that the UK tourism industry has become increasing dependent on EU funding for tourism development and promotion, especially in the domestic tourism industry. There are two main sources of this funding, CAP payments and structural funds.

Over the 2014-2020 period the UK is expected to receive €27.7 billion in direct payments under the Common Agricultural Policy under two “Pillars”. Of the £3.5bn available under Pillar 2 (the Rural Development Programme - RDP), £3.1bn is allocated to environment schemes which support the rural tourism industry by enhancing the environmental resource on which rural tourism is based. Of the remaining £400m, tourism businesses will be significant beneficiaries of a further £298m. If tourism-related businesses receive just £120m of this funding, it will equate to around the same amount that Local Authorities spend on rural tourism.

In addition to CAP funding, significant EU funding that supports the UK tourism industry is received through the European Structural and Investment Fund (ESIF) programme. This funding is particularly important to destinations such as Cornwall and Wales which will receive over £800 per person from the EU Structural and Investment Fund – a significant proportion of which supports coastal and rural tourism development.

**Impact**

When the UK exits the European Union, one of the major sources for funding for rural and seaside tourism development and promotion will terminate. The removal of this funding will reduce public funding for tourism at the subnational level by around 50%, reducing the ability of Destination Management Organisations to compete in the global tourism market.

It is also important to note that domestic tourism is the largest private sector means of redistributing wealth from metropolitan to rural and seaside areas in the UK. In England, of the £66bn spent on domestic tourism each year, £30.4bn of this accrues to small towns, rural and seaside destinations, directly supporting around 560,000 FTE jobs in these locations.

**Evidence**

Rural tourism is a significant component of the UK tourism industry. In 2015, 20m overnight trips were taken to rural destinations while day-visitors undertook a further 335m trips to rural destinations. Together, these visitors spent £20.7bn in rural destinations, enough to support over 380,000 fulltime jobs in the rural economy.

Meantime Coastal tourism is the largest domestic overnight holiday sector (31%) , worth £8bn for domestic overnight and day trip spend. Coastal tourism in England and Wales directly supports some 210,000 jobs estimated to be worth around £3.6 billion, which is similar to the telecoms sector.

**Desired Outcome**

The UK government needs to ensure that funds already granted through the CAP and ESIF programmes remain available for tourism businesses to the end of the current programme at the end of 2020, regardless of the timeframe for the UK’s exit from the EU. This will allow the Government sufficient time to put in place national funding mechanisms that will promote the growth of rural tourism.

In addition, replacement funding streams need to be established to ensure that there is continuity of funding available for rural and seaside businesses. In establishing these new funding streams there is the opportunity to take a more integrated approach that recognises that the tourism industry is a key component of rural and regional economies.

CLA, National Trust and NFU, together with conservation organisations, are working on a replacement scheme, including what kind of transition programme there might for farmers. At the heart of this approach is the view that public money should pay for public goods and that a transition period would support farmers and other land managers to broaden their income sources, including from tourism. This approach should be supported by Government

Similarly, a scheme needs to be developed to replace the European Structural and Investment Fund so that regeneration programmes, especially for coastal destinations, are maintained.

**Experts**

CLA

National Trust

British Destinations

National Coastal Tourism Academy

# **4. Opportunities**

## **4.1 DExEU Unit – Domestic Consequentials**

### **a. Domestic Air Passenger Duty**

Air Passenger Duty (APD) is a departure tax that is levied on all flights leaving UK airports. While control of APD is being devolved to the Scottish Parliament, which will soon set its own rates, being a member of the EU requires Westminster and the Scottish Parliament to implement Air Passenger Duty in a consistent manner, which means that the tax has to be levied on all flights that depart a UK airport. As a result, people undertaking domestic flights within the UK have to pay the tax om each leg of a return trip while those passengers undertaking a return flight to or from continental Europe pay it only once.

Leaving the EU provides an opportunity to review APD on domestic flights. Removing APD on domestic flights would provide considerable benefits. First, it would boost the economic viability of domestic routes, thereby strengthening the domestic air transport system. Second, it would support the Government’s new 5 Point Plan for Tourism by encouraging tourists to visit locations outside London by lowering the cost of domestic flights.

**Impact**

The imposition of APD on both legs of a return domestic flight increases costs and impacts on the viability of many domestic routes. The reduced viability of domestic routes adds to the pressure on airlines to reallocate slots at UK airports to international flights which, in turn, reduces the ability of using London airports as a hub to deliver overseas visitors to regional destinations.

The reduced viability of domestic routes has resulted in a continual reduction in domestic flights from Heathrow, with 11 domestic routes lost since 1990. The Airports Commission, in considering aviation capacity in the South East, recognised that the weakening of links to Heathrow has “contributed to a continuing decline in (regional) connectivity”.

**Evidence**

The Transport Select Committee’s Smaller Airport Inquiry found that constrained capacity at Heathrow has damaged domestic air connectivity from smaller airports, which are connecting to other European hub airports instead. For example, Durham Tees Valley airport experienced a 75 per cent reduction in overall passenger numbers following the withdrawal of its Heathrow service in 2009.

As domestic air travel constitutes less than 10% of total UK air travel the removal of Air Passenger Duty would have limited impact on Government revenues.

**Desired Outcome**

That the Government remove Air Passenger Duty from domestic flights in order to improve regional connectivity from London airports, thereby enabling overseas visitors to more easily visit regional destinations outside London.

**Experts**

AoA

Airlines UK

### **b. Package Travel Directive (Domestic Tourism)**

The Package Travel Directive was introduced to protect customers undertaking international travel within the EU. Under the Directive, the customer is financially protected if the tour operator becomes insolvent. It also means that the tour operator is legally responsible for all components of the package. The Package Travel Directive has recently been revised and is due to be enacted into UK legislation by 2018.

The Directive applies to tour operators that sell a packaged product to customers, where a “package” means the pre-arranged combination of at least two of the following components:

a) Transport

b) Accommodation

c) Other tourist services

When purchasing a package, the Directive protects customers’ payments and facilitates their repatriation if their travel agent goes out of business while they are overseas. In addition, if the customer is injured, or suffers a loss while on holiday, then they are able to seek compensation from the tour operator in their home country rather than pursuing the matter through a foreign court.

As such, the Directive helps facilitate travel between European countries by providing customers with a high level of protection and is supported by the UK tourism industry. However, the Directive is detrimental to domestic tourism growth and the UK leaving the EU presents an opportunity to boost domestic tourism growth.

**Impact**

While the Directive was originally developed to protect customers who are taken overseas by a tour operator, the definition of a package means that it applies to domestic tourism businesses that provide “added-value” offers. These are offers that do not include travel but are designed to enhance the attractiveness of the deal. For example, a guesthouse might work with the local tourism attraction to provide accommodation and tickets to the attraction for a discounted price or work with the local golf course to provide accommodation and a round of golf for a set price.

However, due to the requirements of the Package Travel Directive, the accommodation provider would have to establish a trust account (which impacts on the business’ cashflow) and be legally responsible for any injury the customer may suffer while visiting the attraction or golf course (which is a significant financial risk). As such, very few small domestic tourism businesses work together to provide customers with value-added products, which reduces the UK’s domestic tourism offering.

**Evidence**

Research undertaken by VisitEngland and the Tourism Alliance indicates that if tourism businesses were able to sell added-value products, this would generate over £3.7bn per annum in additional expenditure for the economy and create approximately 70,000 new jobs. This would be a no cost to consumers as both businesses would remain separately liable for their component of the added-value product.

**Desired Outcome**

The industry’s view is that the new Directive should be implemented in full for packages sold to customers for travel to European destinations but its application to domestic added-value products should be removed in order to boost domestic tourism.

**Experts**

ABTA

Tourism Alliance

### **c. Aviation State Aid Guidelines**

The Aviation Policy Framework sets out the government’s policy to enable the aviation sector to continue to make a significant contribution to the UK’s economic growth. It recognises that regional airports play a vital role in attracting new business activity to support the growth of regional economies by developing new routes and more frequent services.

In the 2013 Spending Round it was announced that £20 million would be made available between 2014 and 2016 to maintain regional air access to London through a Public Service Obligation (PSO) where there was the probability that an existing air service would be lost. In 2014, the Chancellor further increased the support for regional air connectivity to London from £10m to £20m per annum, and extended the fund to include start-up aid for new routes from regional airports which handle fewer than five million passengers per year. The Regional Air Connectivity Fund has a total of £56 million available to cover three years of financial support for start-up aid.

The aid is subject to the 2014 EC Aviation State Aid Guidelines for airports and airlines, which limits financial assistance from the Government to airports of fewer than five million passengers per annum for periods up to three years.

**Impact**

In December 2015 the Government announced that 11 successful bidders had been awarded support from the Regional Air Connectivity Fund. This funding will provide new flights within the UK and also introduce new routes to Europe.

However, for airports handling between 3-5 million passengers per annum the EC state aid for aviation guidelines state that the Government needs to apply to the EU on a case by case basis and that State Aid cannot be provided to airports that handling more than 5 million passenger per annum. These requirements severely limit the Government’s ability to develop and implement regional air connectivity programmes that significantly contribute to regional economic growth and support the goal of the 5 Point Plan for Tourism in distributing overseas visitors out from London.

**Evidence**

While the new routes funded by the Regional Connectivity fund have only recently started operation, it is expected that these routes will provide considerable benefits for regional economies. For example, the £2.5 million provided by the fund to support the link between Newquay and London will allow three flights each way will take place during the week with 2 weekend rotations. The Airports Commission Report June 2015 identified the impact of an expanded Heathrow would have the South West of England. The Commission evidenced that the region would experience £10.2bn in growth and up to 12,300 new jobs. The overall benefit from an expanded Heathrow to the UK would be £211bn in growth and up to 180,000 new jobs.

**Desired Outcome**

That the Government, free from the State Aid restrictions associated aviation development, expands and enhances the Regional Air Connectivity Fund in order to boost regional economies and support the % Point Plan for Tourism.

**Experts**

AoA

## **4.2 DExEU Unit – Market Access**

### **a. Tour Operators Margin Scheme (TOMS)**

Normally, businesses register for VAT in every EU country in which they do business. However, because of the practical difficulties Tour Operators face in putting together packages consisting of services located across a range of EU countries, the EU introduced the Tour Operators Margin Scheme (TOMS).

Under TOMS, Tour Operators pay VAT-inclusive prices on the 'tour components'. They do not reclaim VAT on these transactions, but pay tax on the difference between the total tax inclusive price that they purchase the components and the price at which they are sold to consumers. In general terms this has been an extremely successful simplification: an example of Brussels eradicating red tape.

**Impact**

However, there is one drawback. TOMs can only be applied on the activities of EU operators. It thus put EU (and so UK) tour operators at a competitive disadvantage to non-EU operators. This distortion has resulted in:

1. UK businesses relocate overseas in order to sell packages to EU destinations

2. UK businesses concentrating on selling packages to destinations outside the EU

3. UK businesses seeking to avoid TOMS by overweighing the travel component of the EU packages they sell

There is one type of UK Tourism Operator that still survives – wholesalers that sell European Holidays throughout the world. These businesses still survive because TOMS does not apply to Business-to-Business transactions.

However, a recent opinion by the Advocate General at the European Court of Justice has ruled that TOMS should be applied to these businesses. If this is upheld, these businesses will, like the consumer focused Tour Operators before them, relocate offshore.

Implementation of this ruling throughout the EU has been stalled as the Commission is starting the process of investigating reform. As many UK businesses sell European destinations to third markets (such as the USA), these discussions will have a direct bearing on their activity. It will also have a direct bearing on any company that sells European holidays to UK nationals.

Leaving the EU means that many currently successful UK businesses will be subjected to a tax regime over which they have no influence. It also means that they may not be able to apply TOMS, as it is a scheme only available to EU operators. They would have to register and account for tax in each country where they do business.

**Desired Outcome**

The UK should seek to retain TOMS on business to consumer transactions, with an opt-out for business to business transactions. In order to attract back those companies selling to non-EU customers, we should seek to have the margin tax exempted for sales to non-EU citizens. The monitoring and reform of this tax will be a continual process handled by the Taxation Commission in Brussels which means that the UK need to retain a voice at these discussions.

**Experts**

ETOA

ABTA