TourismAlliance
the voice of tourism

EU Referendum

Impacts on the UK Tourism Industry

May 2016

Executive Summary

- The UK and the EU tourism industries are highly interdependent with very high levels of travel and expenditure in both directions.
- If the UK were to leave the European Union:
    - The ease of access to the UK for EU visitors is likely to fall, although the level of this reduction would depend on the new relationship negotiated with the EU. However, any significant reduction in accessibility or cost associated with travel to the EU for UK residents will benefit the UK domestic tourism industry.
    - Any change in cost to EU visitors to the UK other than an initial drop in the value of the Pound would probably be minimal as the main taxes imposed in visitors are not EU based.
    - The availability of skilled workers for the tourism and hospitality industry would be severely impacted if freedom of movement for EU citizens was removed. This would have implications for business costs and the quality of service provided to customers.
    - It is unlikely that there will be any significant reduction in regulation due to leaving the EU as the UK Government would be unlikely to reduce worker or consumer protections. However, there would be the opportunity to amend the Package Travel Directive and Tourism Operators Margin Scheme to support UK businesses.
    - The EU is a significant source of funding for tourism development. The impact of this funding ending would depend on whether the UK Government introduced compensatory funding schemes.
    - The main EU outbound tourism markets rank the UK relatively poorly in terms of perceived welcome. This perception is likely to be reinforced if the UK leaves the UK, impacting on their desire to visit the UK.
    - Business travel to the UK is likely to be reduced as companies put investment decisions on hold until there is certainty regarding the UKs relationship with the EU.

1. Introduction

On 23rd June 2016, a referendum will be held as to whether the UK should remain in or leave the European Union. This paper examines the impact on the UK tourism industry if the outcome of the referendum is for the UK to leave the EU, discussing what changes might be expected to occur and their impact on tourism flows.

It should be noted at the outset that many of these impacts are uncertain as they will depend upon what future relationship and agreements the UK has with the European Union and what policies subsequent UK governments adopt in response to the UK being outside the European Union.

Central to this uncertainty is that no other country has withdrawn from the EU so there is no precedent and, if the UK was to invoke Article 50 of the Treaty on European Union which allows a country to withdraw, the remaining EU Member States then have two years to agree the terms that it would offer the UK for a continued relationship (although this could be extended by unanimous agreement among the Member States).

While there would probably be a high level of uncertainty during this two year negotiating period, it is also important to note that that if the UK were to vote to leave the EU, this would not signal its immediate withdrawal and the two-year period would allow some time for businesses to fully assess any changes and to adjust their activities accordingly.

2. UK Tourism and the EU

The UK tourism industry and that of the other EU member states are heavily interdependent with 45.7m (76%) of trips by UK residents to other EU destinations and 23m (67%) of visitors to the UK coming from other EU destinations. Of the 23m visits to the UK by EU residents each year, 8.8m (39%) come for a holiday, 6m (26%) come for business, 6.5m (28%) are coming to visit a friend or relative, 350,000 (1.5%) are coming to study and 1.3m (5.7%) come for other purposes.

Their average spend in the UK by visitors from other EU member states is £411 and they stay for an average of 6.1 days. While this is lower than the average of £636 and 7.7 days for the average visitor to the UK, it reflects the close proximity of this market and the relative ease and low cost of travel within the EU.

The following tables show that the EU is very important for holiday visitors to the UK. It also shows the high level of integration between the UK and other EU countries with extremely high level of business travel and EU residents coming to the UK to visit friends and relatives.

However, the UK tourism industry's dependence on expenditure by EU visitors, while still high, is significantly less due to the shorter length of stay.

Visitors to the UK

	World (m)	EU (m)	Percentage
Holiday	13.6	8.8	65%
Business	8.3	6.0	72%
VFR	9.6	6.5	68%
Study	0.6	0.4	54%

Spend by Visitors to the UK

	World (£bn)	EU (£bn)	Percentage
Holiday	8.7	3.8	44%
Business	5.0	2.2	44%
VFR	4.6	2.0	43%
Study	1.8	0.6	33%

3. Impacts

There are a number of areas of impact on the tourism industry if the UK leaves the EU. These include:

- Access to Visitors
- Costs to Consumers
- Skills
- Business Regulation
- Funding
- Perceptions of the UK as a Destination
- Business Travel

3.1 Access

One of the main underlying principles of the European Union is the free movement of people across national borders. As such, there is wide range of EU agreements and regulations that facilitate travel between the UK and the rest of the EU member states. These range from ranging from the creation of a single aviation area within the EU to reciprocal health care arrangements.

The boom in the budget airline industry since 1995 is in large part due to the removals of air-service agreements within the EU, while the EU negotiated Open Skies Agreement has significantly reduced the cost of transatlantic services.

If the UK was to leave the EU, these agreements would have to be renegotiated. While the UK government would seek to renegotiate these agreements along current lines, this process would probably be a lengthy process which would result in reduced investment in both route development and aviation infrastructure until the outcome was certain. There is also the risk that, if the existing terms were not able to be negotiated, costs to travellers could rise.

Another area that would need to be resolved is immigration control. While it would be extremely unlikely that the UK would require entry visas for nationals of any current EU member country, the current ability on EU residents to enter the UK with just a national identity card would probably end and there are questions as to the maintenance of EU immigration channels in the UK and the ability of UK residents to use EU immigration channels in EU member countries.

It should be noted that any significant reduction in access to EU countries, or associated increase in the cost of travelling to EU countries, will probably increase domestic tourism in the UK. As the number of outbound tourists exceeds the number of inbound tourists by 2:1, the overall impact on the UK tourism industry in likely to be positive. However, there will be winning and losing destinations within this as domestic tourism tends to be to rural and seaside destinations while visitors from the EU tend to concentrate on city destinations.

3.2 Costs to Visitors

There is general agreement that, at least in the short-term, the value of sterling would fall against the Euro, making the UK a more attractive destination for visitors from the EU.

Weighed against this, there are a number of additional costs that both inbound and outbound visitors would incur including additional travel insurance costs if European Health Insurance ended and increased mobile phone roaming fees and the UK would not be party to the recently announced cap on roaming charges.

However, for visitors to the UK, the impact of these costs is marginal compared to Air Passenger Duty and the imposition of VAT on accommodation, attractions and restaurant meals. These costs are the reason that the World Economic Forum ranks the UK as 140th out of 141 countries in terms of price competitiveness.

While exiting the European Union would give the UK Government greater control over setting VAT levels and allow a more flexible approach in use VAT as a mechanism for controlling the growth of certain areas of the economy, there is little to suggest that this will happen. EU tax rules already allow the UK government to lower VAT on labour-intensive industries such as tourism and successive Government have chosen not to exercise this option.

Similarly, Air Passenger Duty is currently outside EU legislation and there is no impediment to the UK Government varying rates or abolishing the Duty altogether. However, leaving the EU would enable the Government to address the issue of “double taxation” on UK domestic flights where the customer is charged APD on both legs of a return flight.

One final cost-related issue is that exiting the EU would mean the reintroduction of duty-free travel to and from EU countries. This would mean that products should as tobacco and alcohol could once-again be purchased duty-free but, at the same time, would see the end of people travelling between the UK and the EU being able to buy unlimited quantities of these goods for personal use.

Overall however, it would seem that, apart from the short-term benefit of reducing the exchange rate, leaving the EU will have no discernible long-term impact on the costs faced by visitors.

3.3 Skills

The UK tourism industry, which employs 3.1m people (9.6% of the UK workforce) has experienced considerable growth in recent years, having created 300,000 of the additional 1m jobs created in the UK between 2010 and 2013.

This rate of growth has been greater than the ability of UK educational and training institutions to provide skilled workers and tourism businesses have relied on immigrants from EU countries, to fill vacancies in the industry. Figures from People 1st, the Sector Skills Council for the tourism and hospitality industries, show that the level of foreign workers in the sector has increase from 19% in 2004 to 28% in 2014.

The requirement for skilled staff in the tourism industry is not likely to abate in the near future with People 1st estimating that the sector will require 993,000 new staff by 2022 due to growth and high turnover rates. This high level of demand for staff means that 21% of businesses are already 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.

Even with open immigration from EU countries, the UK's unemployment rate has dropped to just 5%, putting pressure on businesses trying to source skilled workers and leading to around 10,000 unfilled position on the sector. If the UK leaves the EU, it is reasonable to assume that the staffing and skills shortages currently being experienced by businesses will be exacerbated as UK training institutions will not be able to compensate for the reduction in workers from the EU and the UK is unlikely to reopen the TIER 3 immigration route into the UK from non-EU countries.

There is, therefore, a significant risk that staff shortages will increase, forcing up wage costs for businesses and possibly lowering the quality of service provided to customers.

3.4 Regulations

Much of the legislation developed through the EU is aimed at facilitating the fundamental purpose of the Union – i.e., enhancing trade and movement across national borders. As such, there is a considerable EU derived legislation that impacts of the tourism industry. This legislation ranges from employment legislation through to advertising standards, consumer protection, health and safety and environmental standards.

There are two types of EU-sourced regulation that impact on UK tourism businesses. The first is laws implemented through EU regulations which directly impact on business without the need for the UK Government to develop and introduce legislation. These regulations would immediately cease to apply to UK businesses when the UK formally exits the EU.

It is these regulations that the UK Government would prioritise their consideration of in the UK leaves the EU. The extent to which the Government would let these regulations lapse without development replacement legislation or develop replacement legislation that benefitted UK businesses would depend on the type of relationship the UK negotiated with EU after exiting. However, if the relationship negotiated with EU was akin to that of Switzerland or Norway, then there will probably be limited scope to reduce the number of applicable EU regulations.

The second form of legislation, is UK legislation that gives effect to European Directives. These regulations would remain in effect even when the UK formally exits the EU but would be easier to amend as it would be less likely to be central to the UK's renegotiated relationship with the EU.

It would be wrong to think that that there would be a significant reduction in the level of regulatory burden faced by UK tourism businesses if the UK was to leave the European Union. The reason for this is that is unlikely that the UK Government will be willing to significantly reduce legislation regarding consumer protection, health and safety or employee rights. However, there are two significant pieces of legislation where the Government could make changes that would support UK tourism businesses.

1. The Package Travel Directive

The Tourism Alliance has lobbied in Brussels and within the UK to amend the Package Travel Directive to make the sale of transport a mandatory component of package. Doing so would allow domestic tourism businesses to sell value-added product such as accommodation and tickets to an attraction of event. Work with VisitEngland estimated that such as change would boost domestic tourism in the UK by around £2.6bn per annum, which would create just under 50,000 additional jobs.

2. The Tour Operators Margin Scheme

TOMS was introduced as a means for tour operators to simplify VAT payments when developing EU package holidays. However, by placing the tax on the operator's margin and only applying to holidays taken within the EU sold by companies that operate within the EU, it has distorted the market. This has resulted in many UK tour operators shifting their businesses overseas and provided an incentive to sell non-EU holidays over domestic and EU holidays.

Amending the legislation relating to both the PTD and TOMS would provide significant benefits to the UK tourism industry.

3.5 Funding for Tourism Development

Of the £13 billion that the UK paid into the EU budget in 2015, £4.5 billion was returned to the UK as payments such aa Common Agricultural Policy (CAP) payments to farmers or Objective One funding for poorer areas of the country such as Wales and Cornwall. This funding has provided significant benefits for the UK tourism industry. For example, the current CAP funded Rural Development Programme administered through DEFRA includes £20m specifically targeted toward rural tourism promotion, while £138m of LEADER programme funds can be accessed by rural tourism businesses and the EAFRD Growth Programme contains a further £178m that can also be accessed by rural tourism businesses.

In addition, it can be argued that the £3.1bn available for environmental schemes through the Rural Development Programme will enhance the rural environment making it more attractive to visitors.

While this funding would end if the UK left the EU, it is uncertain as to whether the UK Government would directly replace the funding or whether the Rural Development Programme would end. Similarly, it is unknown whether future Governments would replace current regional development funding with a similar UK-based funding programme.

3.6 Perceptions

There are two views as to how leaving the EU would impact on the desirability of the UK as a destination for overseas visitors. On the one hand, there is the view that overseas visitors would see view the UK as a more interesting destination due to its increased independence and be more likely to visit. However, as the UK is not part of the Schengen area, it is debatable as to whether the many long-haul visitors currently recognise the UK as part of the EU or, if they do, whether this is of any significance in their decision-making process.

On the other hand, the Anholt GfK Nations Brand Index continually shows that one of the UK's main weaknesses is the perception of people in certain markets that the country is less welcoming of visitors than many other destinations around the world.

Anholt GfK Nations Brand Index is an annual study amongst 20,000 consumers in 20 panel countries where consumers score 50 nations on 18 attributes including Welcome. It is notable that although the UK rates 3rd overall, and 4th in terms of tourism attributes, it rates 11th when consumers are asked "*If visited, people would make me feel very welcome".* This "welcome" ranking is even worse for the three main EU tourism markets in the survey with Germany (16th), France (14th) and Italy (12th).

Based on this, the counterargument is that the UK leaving the EU will reinforce this perception and result in a reduction in its desirability as a destination. So, while leaving the EU will probably not have any impact on long-haul visitors, there is the possibility that the current perception of many EU citizens that the UK sees itself as apart from the rest of the EU will intensify and that this could impact on travel to the UK, at least in the short term.

3.7 Business Travel

As can be seen in the tables in Section 2, 72% of the 8.3m business visitors who come to the UK are from other EU countries, underlining how highly the UK economy is integrated into those of other EU states.

The UK's departure from the EU is therefore likely to impact business travel in two ways. The first is that business travel to the UK, both from EU and other overseas countries, is likely to decrease as businesses put investment decisions on hold pending an outcome to the UK's negotiations with the EU on a future relationship. This decrease is likely to last at least two years and could last longer depending on whether the EU extends the negotiation period. The delay in travel associated with investment would probably be longer for third countries such as the USA where EU - negotiated trade deals would have to be replaced by new bi-lateral trade deals.

Depending on the outcome of the UK's negotiation with the EU, there may also be a secondary impact on business travel. If the outcome does not fit with the business models of companies in third countries that use the UK as their main European location, there could also a reduction in business travel associated with these businesses relocating their European headquarters to an EU country.

Another impact on business travel would be any reduction in conference travel associated with either a concern by conference organisers that fewer EU delegates would travel to a conference held in the UK or the unwinding of common EU standards related to the delivery of conferences and events.

Business Checklist

The following checklist has been developed to help operators determine how leaving the European Union could impact on their business and what actions they need to take to either mitigate the costs or take advantage of the opportunities.

Customers	
How much of your business, or that of your destination, is from EU countries?	
Do you market in EU countries – either actively or passively through your website?	
How would leaving the EU affect your customers' decision-making?	
Do you need to develop a strategy to inform/reassure customers?	
Funding	
Do you, or your destination, receive any EU funding?	
Would withdrawal of this funding impact your business?	
Are other funding streams available?	
Regulation	
Is the legislation that impacts your business predominantly UK based, or EU based?	
Is the EU based legislation a benefit or a cost to your business?	
What legislation needs to be retained and what legislation needs to amended to benefit your business?	
Staffing	
How reliant is your business on staff from EU countries?	
How would you overcome any staff shortages associated with restricted freedom of movement?	
Business Growth	
Would leaving the EU impact on the growth strategy of your business or destination?	
Would leaving the EU affect any investment decisions in your business or destination?	
Could your supply chain be impacted by the UK leaving the EU?	
What changes to your business strategy would you need to make if the UK left the EU?	