



James Cartlage MP
Exchequer Secretary to the Treasury
HM Treasury
1 Horse Guards Rd
London
SW1A 2HQ

March 14th 2013

Dear Minister,

Thank you for your letter of March 10th 2023 replying to the Budget Submission on tax-free shopping made jointly by the Association of International Retail and UKInbound.

I am sending you the first major set of industry and consumer data on the real impact of withdrawing tax-free shopping on the behaviour of international visitors, based on actual spending by non-EU international visitors to Europe in 2022, the first full post-pandemic year. The data and briefing are attached. This is a top line presentation of the findings that we have presented to a groups of Conservative parliamentarians. My colleagues and I are happy to show you the full data sets and discuss them with you in detail if you wish.

We will be producing similar reports over the coming months as more data emerges.

I would appreciate the opportunity to discuss them with you.

In your answer to a Written Parliamentary Question on February 21st 2023, you restated the Treasury's belief that ending tax free shopping would have a limited behavioural effect on decisions to visit, or spend, in the UK.

Unfortunately, a range of data sources are consistently showing significant behaviour change as international visitors are diverting millions of pounds of spending previously done in Britain to France, Spain and Italy.

Britain has traditionally been one of the world's most desired destinations for international visitors. In 2019, 40 million international travellers visited the UK, spending over £28 billion. VisitBritain states that shopping is the single biggest element of that spending at over 25% of the total. This is foreign money being brought into Britain to boost our domestic economy.

Every part of the UK benefits from international visitors. High-spending international visitors support our retail, hospitality, leisure, cultural and transport sectors in every region of the UK. Hundreds of thousands of jobs depend on them, not just in these sectors but also many in the manufacturing plants of our globally renowned British brands.

And as technology creates more wealth and more leisure time across the world, the rapid growth of international travel is a complementary element of the rise of high-tech economies. Fortunately, Britain is already starting from a strong position to grow our international visitor sector, providing opportunities for people throughout the country to benefit from the wider consequences of the world's technological development.

The highest spending travellers are those from the United States of America, the Gulf States and China. In 2022, people from America and the Gulf Region started to travel again. The world witnessed high levels of spending because of pent-up demand following COVID-19.

We have looked at the relative recovery to 2019 spending levels in the UK and then in our major European competitor countries. In 2022 Americans visiting Britain were back to 101% of their level of spending in 2019. However, in France they were at 226% of 2019 spending levels.

Visitors to Britain from the GCC states in 2022 spent around 65% of their 2019 level. But in France, they were spending 198% of 2019 levels. There is clear evidence of a mass diversion of spending away from the UK towards France, Spain and Italy.

And while this is just retail sales, we are seeing hotels and other businesses with a presence in Britain and in EU states reporting that their UK businesses are recovering slower than those in France, Italy and Spain and they put this down to the ending of tax-free shopping.

We have looked at other factors that may account for this large difference, such as the exchange rate, inflation and different post-COVID reopening policies, but there is no significant difference that could account for behavioural change on this scale other than the decision to make the UK the only major European country not to offer tax-free shopping to international visitors.

In 2019, the Chinese were by far the highest spending international travellers and the potential for growth is huge. VisitBritain states that shopping is their number one priority when travelling abroad. They are extremely price sensitive with real evidence showing their price elasticity to be around 3.6. Chinese people have only just started to travel so there is little data on their spending for 2022.

We therefore surveyed over 10,000 Chinese travellers who had visited Europe in 2019. 92% told us that they were planning to visit Europe again within the next 12 months. In 2019, Britain was only just behind France as the most popular European destination for Chinese travellers. But the survey showed that Britain is now the least popular major country in Europe for the Chinese. Whereas 75% say they will be visiting France, only 43% say they will visit the UK, which is lower than even Germany at 59%. We expect that percentage to fall to even lower over time because not all travellers are yet aware that they can no longer shop tax-free in Britain.

So the actual data is clearly showing that the Treasury's forecast of little behaviour change as a result of withdrawing the schemes is not holding up.

Worryingly, in addition to the diversion of spending by international visitors, we are seeing global brands changing their long-term capital investment plans, deciding to invest in those global cities, such as Paris, Milan and Madrid where international visitors are now choosing to shop rather than in London and the rest of the UK. The recent announcement by British heritage brand Mulberry that it is closing its flagship Bond Street store due to the ending of tax-free shopping is an indication that Britain risks losing its premier status as a global investment destination.

In your answer to the Written Parliamentary Question, you also restated the Treasury's estimate of the expected number of additional visitors to the UK from the European Union as a result of extending tax-free shopping to EU residents. You say that, based on Treasury assumptions, the OBR had suggested a figure of no more than 50,000 additional EU visitors annually. The data appears to undermine that figure.

Since January 2021, British residents have been able to shop tax-free in the European Union. The population of the European Union is six times larger than Britain's. Based on the Treasury's estimates

you would therefore expect around 9,000 additional British visitors to the EU due to the introduction of tax-free shopping there.

In 2022, the total number of tax-free shopping reclaims made by British visitors to the EU was 520,000. Moreover, evidence from the first two months of 2023 show that this number has doubled and we expect that figure to be over 1,000,000 in 2023. While some of that will clearly be shopping that would have taken place anyway, the sheer scale of the reclaim numbers shows that tax-free shopping has a significant impact on the decision to visit a country. We simply do not recognise the Treasury's 50,000 figure, given the actual recorded data.

So the real data, as international visitors start to return, shows not only how ending the scheme is damaging the UK economy, but also the scale of the opportunity lost by throwing away the chance to make Britain the only major country in Europe where EU residents can shop tax-free.

And this was an opportunity that would have particularly benefited the regions because most of their airports tend only to serve European destinations, giving a huge boost both to this vital transport infrastructure and to the wider regions they serve.

The recent Oxford Economic Report was a thorough and detailed study of the full impact of tax-free shopping on the UK economy and tax revenue by one of the country's most respected economic forecasting bodies, with a particular specialism in tourism. It is disappointing that it was so casually dismissed in your response to the recent Written Parliamentary Question, particularly as the real evidence is now showing consistently that, if anything, even Oxford Economics had underestimated the impact, not overestimated as the Treasury claims.

Given the major inconsistencies between the Treasury forecasts and those of Oxford Economics, and the growing and consistent evidence of the real impact of withdrawing the schemes, we would ask once again that the Treasury commissions an independent assessment of the full impact of tax-free shopping on the UK economy and tax revenues.

In doing this, we are echoing calls by the DCMS Select Committee, the Treasury Select Committee, the APPG for London as a Global City, the Mayor of London, a growing number of MPs from all parties and virtually every tourist, retail and hospitality professional organisation.

We accept that the OBR has looked at certain parts of the scheme but these were very limited. And they were only based on Treasury assumptions, which the data appears to be proving wrong. The OBR was very clear in its evidence to the Treasury Select Committee following the 2020 November Budget that it worked on limited data; that it had not looked at the full costs and benefits; and that it believed that Britain would lose out to France and Italy. Most importantly we do not believe that the OBR was ever given the opportunity to assess the Treasury's estimated cost of extending the scheme to EU visitors, which Ministers have constantly said was the reason for ending the scheme, and which the Oxford Economics report has proved, using real data, was overestimated by nearly three times the actual amount.

We would appreciate the opportunity to discuss these issues with you in more detail.

Yours sincerely,

Paul Barnes
Chief Executive
Association of International Retail

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Rt Hon Jeremy Hunt MP, Chancellor of the Exchequer

Rt Hon Kemi Badenoch MP, Secretary of State for Business and Trade

Rt Hon Lucy Fraser, Secretary of State for Culture, Media and Sport

Kevin Hollinrake, Minister for Retail

Julia Lopez MP, Minister for Tourism

Rt Hon Damien Green MP, Chair, DCMS Select Committee

Sir Geoffrey Clifton-Brown MP