

In Confidence

## BHA Brexit Consultation

The British Hospitality Association (BHA) is the authority on hospitality and tourism in the UK and the voice of 45,000 businesses, including hotels, serviced apartments, private rental schemes, private members' clubs, self-catering accommodation, restaurants, food service management companies, attractions, sport stadiums, and other leisure outlets located in urban and rural areas all across the UK.

The hospitality and tourism industry is a lynchpin of the UK economy. It is our fourth largest industry representing 10% of GDP, equivalent to £143 billion and employs 4.49 million people across the country. Over the past five years the industry has delivered 331,000 new jobs, equivalent to one in five new jobs created in this country, and we are on track to deliver a further 100,000 new jobs by the end of the decade.<sup>1</sup>

Our members are justly proud of the industry. Few others can boast the immense career opportunities and prospects we offer to people of all levels of skill and qualifications. With huge potential for career progression, we represent a powerful force for social mobility and up-skilling.

The hospitality and tourism industry serves visitors and UK residents alike. We are the first point of contact that most visitors have with the UK, and every time people eat out, pick up a coffee, visit an attraction, go on a ride or stay in a hotel, they come face to face with people from our industry. We also provide the critical infrastructure needed to turn the cogs of domestic industry. Whether it's financial services, manufacturing or the creative industries, growth is dependent upon the capacity of our industry to facilitate, host and cater for their business and investor visits, meeting and events.

Such an important industry needs and deserves the support of Government in both economic and policy terms. Britain's exit from the European Union is predicted to have wide ranging implications for our industry, but it also provides an opportunity for the UK Government to reprioritise hospitality and tourism and our competitiveness, in order to maximise the economic and social benefits of our industry.

An estimated 700,000 of the 4.5 million people that make up our industry are workers from the European Union, 63 per cent of inbound holidaymakers to Britain are from countries of the European Union, and many of our rural and coastal assets rely on EU funding.

Additionally, the ability of the UK hospitality and tourism industry to host business travellers, events and conventions will be essential to the UK economy post-Brexit, as it seeks to position itself as a venue for business, hub for innovation and host for trade delegations.

In the short term, enquiries for staycation holidays and international tourists have spiked but we cannot, and do not want to, rely on currency fluctuations to bolster our domestic tourism economy and its invaluable export earnings for the UK.

The Government needs to ensure that the UK is, and is perceived to be, open for business for visitors, hospitality and tourism. The Government must take care that the tonality of ministerial statements do not damage the UK's standing as a welcoming destination. If not, the millions of

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<sup>1</sup> BHA, Back the future for hospitality and tourism (2015)

taxpayers' monies invested in the GREAT campaign, the British Council, Visit Britain and others will have been wasted.

The following sections outline the opportunities for and threats to the hospitality and tourism industry presented by Britain's exiting of the European Union. Priorities include:

- 1. Protecting Jobs**
  - 1.1. Ensuring a workforce supply which facilitates growth
  - 1.2. Alleviating the impact of the National Living Wage
- 2. A Balanced Economy**
  - 2.1. Rural and coastal growth
  - 2.2. Facilitating travel across the UK
- 3. Upskilling Britain**
- 4. Competitiveness and Taxation**
- 5. De-regulation**
- 6. Tourists Visas**
- 7. A Competitive and Fair Digital Market**

## 1. Protecting Jobs

Hospitality and tourism employs 4.5 million people across more than 180,000 businesses, making it the fourth largest employment sector in the country. Visit Britain estimates that the industry is growing at almost double the rate of other non-tourism sectors, and with 90 per cent of tourism workers permanently employed, the industry has been instrumental in reducing unemployment.

- 1.1. Ensuring a workforce supply which facilitates growth:** This section highlights the vital role of EU workers within the hospitality and tourism industry and suggests that, if there are to be immigration curbs, a realistic timeline be considered.

**1.1.1.** The British Hospitality Association estimates that a minimum 15 per cent of the workforce is from the EU, which equates to almost 700,000 jobs. In some areas the percentage of migrant workers is considerably higher. London has the highest proportion of EU workers in the industry at around 35-40% of the workforce but, in some businesses the proportion is more than 65%.

**1.1.2.** Since 2011, the UK labour market has become more competitive with unemployment falling from 8.1% to 5.4% by 2015.<sup>2</sup> As a result, the number of non-British workers in the hospitality and tourism industry has also risen. Between 2011 and 2015, the number of migrant workers in the hospitality and tourism sector has increased by 22%, with the majority of this increase coming from EU countries.<sup>3</sup>

**1.1.3.** It is clear that any further growth in such a labour intensive industry would necessitate more staff and this demand cannot currently be met from the domestic job market. Even without the predicted continued industry growth, curbs on access to the European workforce would constrain the industry, impacting the way we all live. The industry cannot

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<sup>2</sup> Office for National Statistics, Labour Market Statistics time series dataset (LMS), downloaded 27 July 2016

<sup>3</sup> People 1<sup>st</sup>, Migrant workers in the hospitality and tourism sector and the potential impact of labour restrictions (2016)

simply replace 700,000 people from within the UK, there is not that pool of people available.

- 1.1.4.** Assuming that 10% of the EU workforce (70,000) leave the sector and/or the UK each year and the industry's total headcount grows by a conservative 1% (45,000) annually, the annual recruitment need is for over 100,000 people. And this is on the basis of zero labour turnover amongst British born workers.
- 1.1.5.** Hospitality and tourism is a hugely competitive marketplace. Any limitations on labour supply would drive up employment costs and thus threaten the sustainability of some businesses. This would have consequences for British born workers, some of whom would struggle to get into other sectors because of their lack of academic attainment.
- 1.1.6.** The BHA has been taking steps for several years to encourage young Britons to consider the industry as a worthwhile career and has had considerable success. The Big Hospitality Conversation and our annual month long initiative - Hospitality Works - in partnership with the Department of Work and Pensions, has created 67,000 career starts within the industry. This concerted effort from the industry and the Government to encourage young British people into the industry needs to be further reinforced and expanded by Government and through the education system and careers advice.
- 1.1.7.** The BHA also supports the Government's agenda to reduce the disability employment gap and will continue to work with the Government to help more disabled workers into the industry.
- 1.1.8.** The scale and the growth of the industry, its role in keeping the country going, and to a measurable extent contributing to happiness and wellbeing, means these initiatives are not nearly enough. The BHA is calling on the Government to consider a realistic 10 year timeline to reduce the number of EU migrants to ensure that our industry is not forced off a cliff edge.
- 1.1.9.** The industry perceives that it is not afforded the government recognition and prioritisation necessitated by the scale of its social and economic impact. Nor is the industry's ambassadorial role fully appreciated by Government - hospitality and tourism is the outward face of Britain, welcoming and serving all international visitors - be they investors, diplomats or tourists.
- 1.1.10.** It is notable that, though the industry is the UK's fourth largest employer, it has not been included in the influential BIS roundtables to discuss the risks and opportunities of Brexit. BHA has requested a meeting with the BEIS Department as a priority.
- 1.1.11.** Training and encouraging more Britons to work in the industry is a long-term objective, but in the short term without immigrant workers from the EU and elsewhere many businesses in the sector will fail, taking all their jobs, local and migrant, with them.
- 1.1.12.** The BHA has been encouraged by the Prime Minister's apparent dismissal of a points-based system for necessary immigration. The country needs hard-working highly skilled people but also hard-working relatively unskilled people. Many – and most of them are

young - both from the UK and abroad, are prepared to work in all parts of the hospitality and tourism industry and across the country. Much of the workforce is also fluid and some of it seasonal, making rigid immigration systems incompatible.

**1.1.13.** The Migration Observatory at Oxford University estimate that 96% of EU workers in hospitality and tourism would be ineligible for a work permit issued under the existing rules for non EU nationals.<sup>4</sup> With this in mind, we think a quota system with a set number of work visas for workers from the European Union guaranteed for the hospitality and tourism industry, would be the best option.

**1.1.14.** The BHA also urges the Government to consider expanding the Youth Visitor Scheme – a reciprocal arrangement that the UK has with a small number of non EU countries like Australia, Canada and New Zealand allowing 18-30 year olds to enter the UK and work/travel - to include some or all EU countries.

## **1.2. Alleviating the impact of the National Living Wage**

**1.2.1.** As a people intensive industry we want to reward, develop and retain staff. In addition, many of our members already pay above the minimum wage. However, the National Living Wage was announced without consultation, meaning that the real impact of a higher rate on a labour-intensive industry was not fully appreciated. Furthermore, the impact is likely to be greater in rural and coastal areas, where the average wage is typically lower.

**1.2.2.** The Office for National Statistics (ONS) has predicted that the hospitality and tourism industry faces the biggest challenge in adopting the National Living Wage<sup>5</sup>, and the Low Pay Commission has identified our industry as having the second highest percentage of employees earning below the National Living Wage before its introduction.<sup>6</sup>

**1.2.3.** In the coming weeks the BHA and The Association of Licensed Multiple Retailers (ALMR) will be issuing a joint independent report by KPMG on the extent to which the introduction and increase in the NLW will impact the hospitality industry.

**1.2.4.** KPMG estimate that the industry's pay-bill will increase by £1.4 billion in the first year alone and could rise by just over £1billion a year every year for 3 years, amounting to a total cost of £3.2 billion for our industry.<sup>7</sup>

**1.2.5.** If this cost increase was fully compensated by a reduction in employment numbers, this would imply the loss of over 150,000 FTE jobs in the sector.<sup>8</sup>

**1.2.6.** The BHA is concerned that the increase in payroll costs for businesses will eat into the operating margins that the hospitality industry depends on to train the workforce and invest in their businesses.

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<sup>4</sup> Migration Observatory Oxford University, Potential Implications of Admission Criteria for EU Nationals Coming to the UK (2016)

<sup>5</sup> ONS, How will the National Living Wage affect employees and businesses in the UK? (2016)

<sup>6</sup> Low Pay Commission, National Minimum Wage Low Pay Commission Report (2016)

<sup>7</sup> KPMG, The potential impact of the National Living Wage on the UK's hospitality industry by 2020 (2016)

<sup>8</sup> KPMG, The potential impact of the National Living Wage on the UK's hospitality industry by 2020 (2016)

**1.2.7.** In order to safeguard jobs and the growth of this vital industry, the BHA urges the Government to reduce employers' National Insurance Contributions for employees under the age of 25 ahead of the 2016 Autumn Statement and 2017 Budget.

**1.2.8.** The BHA also believes that wage rate setting should once again be de-politicised, with the Low Pay Commission retaining its control over rate recommendations, not politicians.

## 2. A Balanced Economy

The BHA welcomed the creation of the Industrial Strategy Cabinet Committee, and the inclusion of the Secretary of State for Culture Media and Sport assures us of the recognition for the important role our industry can offer in ensuring that our economy works for everyone. Hospitality and tourism currently generates 10% of the UK's entire GDP, and accounts for more than 12% of our service sector exports making it an engine for economic growth, wealth and employment right across the UK.

As an industry, hospitality and tourism provides one of the most powerful, and perhaps unique, means of rebalancing the economy and improving the distribution of wealth and industrial strength across all parts of the UK and all age groups.

### 2.2 Rural and Coastal Growth:

**2.2.1** The British countryside and coastline are national assets with great economic potential, yet statistically people living on the coast are more likely to be poorly educated, unemployed and living in low-quality housing than those living in similar inland communities.<sup>9</sup>

**2.2.2** The collapse of traditional rural industries including mining, shipbuilding and fishing alongside demographic changes, have all contributed to the deterioration of many rural, and in particular seaside towns. As such, many of these communities are now dependent on the hospitality and tourism industry. Coastal tourism alone employs more people than the steel, pharmaceutical and aerospace industries combined and it is clear that no other industry is better placed to deliver the social and economic regeneration that these towns are in desperate need of.

**2.2.3** Large parts of the UK's countryside and coastline are currently in receipt of EU economic aid. Between 2014 and 2020, both Cornwall and West Wales will receive over €1,000 (£800) per person from the EU Structural and Investment Fund.<sup>10</sup> This figure is similar to that received by Romania and Bulgaria, and is designed to support sustainable economic development and reduce regional wealth disparities. This funding is vital to many of the UK's coastal and countryside communities, which are known to suffer from a specific set of socio-economic challenges.

**2.2.4** The rural nature of these communities often results in limited transport and technology infrastructure and in turn economic opportunity. This limits employment prospects not only for teachers but their partners and families, meaning that schools find it difficult to recruit and retain staff and education standards suffer. Statistically coastal communities achieve lower levels of education and skills attainment among young people, which stunts the labour pool in these regions. Highly skilled workers and graduates are discouraged

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<sup>9</sup> Place Matters, The Potential Contribution of Coastal Tourism to the Regeneration of Seaside Towns (2016)

<sup>10</sup> The University of Sheffield, UK Regions and European Structural and Investment Funds (2016)

from moving to these regions, and there is little incentive for businesses to invest. In coastal communities, this cyclical pattern of economic underachievement is then often exacerbated by demographic changes, including an increasing number of elderly residents and an above average number of residents with disabilities, which in turn creates pressure on the local health and social care services.<sup>11</sup>

**2.2.5** Initial economic predictions suggest that Brexit will disproportionately affect poorer UK regions, and as it is currently unclear whether EU funding for the UK's coastal and rural communities will be matched by the UK Government post-Brexit, it is hard to refute this. The loss of this funding would cripple those communities that depend on it, and would undoubtedly lead to an increase in the State welfare bill for these areas.<sup>12</sup>

**2.2.6** Regional growth does not need to be a zero-sum game and the expense of London. Brexit offers a clear opportunity for the Government to implement its own coordinated investment strategy to drive economic growth in these regions. In July 2016, the BHA, launched a report entitled 'Creating Coastal Powerhouses' which outlined the common economic and social challenges facing coastal communities and set out a 7-point Coastal Action Plan to address these issues.<sup>13</sup> The BHA would like to see the UK Government and the Devolved Administrations appoint a Coastal Tsar, a senior political figure with the experience to deliver a coordinated Coastal Investment Strategy to drive the regeneration of coastal communities. Success stories such as The Jurassic Coast and the recently opened Pier Approach in Bournemouth demonstrate the economic potential of these areas, and the vital role that hospitality and tourism can play in achieving it.

### **2.3 Facilitating Travel Across the UK**

**2.3.1** The mid-term fall in the value of the pound should encourage more foreign visitors to visit the UK but we cannot and should not rely on currently fluctuations, or trouble abroad, to bolster our home tourism economy which is worth £127 billion.

**2.3.2** London was the most popular destination for overseas visitors to the UK in 2015 and there were four times as many visits to London than to Scotland, Wales and Northern Ireland combined.<sup>14</sup>

**2.3.2** The BHA welcomed the recently announced Tourism Action Plan, and the UK Government's clear commitment to supporting the tourism industry right across the UK. We are calling for sustained investment and a joined-up Government and industry approach to ensure that the UK's hospitality and tourism industry continues to excel post-Brexit, attracting more visitors, creating more jobs and strengthening local economies to the benefit of the whole of the UK, particularly those rural and coastal communities outside of London.

**2.3.3** Initiatives such as the GREAT Rail offer are vital to encourage international visitors to travel beyond London, expanding the economic reach of tourism and leading to greater tourism receipts.

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<sup>11</sup> Place Matters, The Potential Contribution of Coastal Tourism to the Regeneration of Seaside Towns (2016)

<sup>12</sup> House of Commons, Briefing Paper, Brexit: impact across policy areas (2016)

<sup>13</sup> Place Matters, The Potential Contribution of Coastal Tourism to the Regeneration of Seaside Towns (2016)

<sup>14</sup> ONS, International Passenger Survey (2016)

**2.3.4** The BHA welcomed the Government's recent decision to support the expansion of Heathrow airport and its ongoing commitment to improving domestic air connectivity. The challenge from other European hub-airports vying to replace Heathrow is serious, especially once the United Kingdom has left the European Union. This decision demonstrates that the UK is open to visitors and investment from across the globe, and will also allow space for domestic air links to support regional tourism right across the country.

**2.3.5** The BHA is a member of the Let Britain Fly campaign.

### 3. Upskilling Britain

The hospitality and tourism industry has played a crucial role in the recovery of the economy by creating one in five of all new jobs since 2010.<sup>15</sup> Continuing this growth is dependent upon guaranteeing both an internationally competitive environment for investment and the supply of a skilled workforce. With 34% of the hospitality and tourism workforce under the age of 25, three times the proportion of under 25s working across the economy as a whole, we have enormous potential to help create a young skilled workforce which will benefit the country for generations to come.

**3.1** The Brexit decision has made the recruitment and development of British workers a priority. The BHA enjoys a positive and constructive relationship with DWP, and together we have delivered 67,000 new career starts for young jobseekers across the UK through our 'Hospitality Works' and 'Big Hospitality Conversation' programmes.<sup>16</sup>

**3.2** Hospitality Works brings together leading industry employers and Jobcentre Plus to drive employment and to encourage jobseekers to consider hospitality as a career choice, whilst the Big Hospitality Conversation partners the young unemployed with businesses.

**3.4** The BHA will be building on the success of these programmes to ensure that the hospitality and tourism industry is seen as a great path for young people to build a career. However, our industry does not receive the recognition in Government as a key job creator and Brexit provides an opportunity for the Government to place more emphasis on support for the industry.

**3.5** As a member state of the EU, the UK has received subsidies from a number of European projects in relation to the provision of apprenticeships and skills. The European Social Fund (ESF) and the European Regional Development Fund (ERDF) are the two main investment streams. The ESF has budgeted €80 million for the period of 2014 – 2020 and allocated an additional €3.2 billion to the Youth Employment Initiative which supports under 25s in areas of high unemployment. The loss of this funding would be detrimental to youth employment and the UK economy; it is therefore vital that the UK Government strengthens its support of UK initiatives.<sup>17</sup>

**3.6** Our industry is a people industry with successful careers based upon merit, aptitude and attitude rather than academic qualifications. It traditionally provides a significant number of entry level positions for people looking to enter employment, and yet around 80% of leaders in our industry achieved their executive, franchisee/ownership, chef and management

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<sup>15</sup> BHA, Back the future for hospitality and tourism (2015)

<sup>16</sup> BHA, Back the future for hospitality and tourism (2015)

<sup>17</sup> European Commission, Youth Employment Initiative, [ec.europa.eu/social/main.jsp?catId=1176](http://ec.europa.eu/social/main.jsp?catId=1176)

positions by working their way up. This demonstrates our industry's success in skills training and employee development.

- 3.7** Four in five hospitality businesses are SMEs<sup>18</sup>. Small businesses already have a much harder time navigating the apprenticeship system and accessing support in setting up such programmes.<sup>19</sup> They also face disproportionate challenges associated with hiring apprentices including cost and requirements.
- 3.8** As previously stated, the hospitality and tourism industry is currently dependent on migrant labour. If there is any change in the current system there will be a significant job deficit in the industry. With the graduate job market currently shrinking, the Government has the opportunity to rebalance the system by tackling the negative perception of apprenticeships from an early age.
- 3.9** The hospitality and tourism industry has a well-documented skills shortage, particularly for managers and chefs and needs to recruit an additional 100,000 skilled workers by 2020 in order to achieve its predicted growth. With UK national unemployment at 4.9%<sup>20</sup> and an anticipated shortage of migrant workers, the industry must increase the number of apprenticeships to sustain growth and continue to support the wider UK economy.
- 3.10** The Government has confirmed that the apprenticeship levy will go ahead in April next year. The BHA calls on industry to prepare fully and make use of available resource streams for skills investment.
- 3.11** Social mobility and improved productivity have been rightly identified as key policy drivers of the new Government for a post-Brexit Britain; a well-funded, fully supported apprenticeship and skills programme will support these objectives.

## 4. Competitiveness and Taxation

As a labour intensive industry hospitality and tourism has made a massive contribution in terms of creating employment and career opportunities at all skill levels. When Government increases business obligations, or payroll related taxation, this will have a disproportionate effect compared to other industries that employ less people. The UK hospitality and tourism industry also currently suffers from an uncompetitive tax regime with UK tourism VAT rates being almost twice that of the European average.

The Government needs to shape a tax system which values hospitality and tourism as a major employer and exporter and allows businesses to invest in their staff and product. The current devaluation of sterling, following the referendum, cannot be considered a long-term tourism strategy but does provide an opportunity to lock in the United Kingdom's value proposition as an international destination.

- 4.1** The BHA actively supports the Campaign to Cut Tourism VAT in calling for the Government to reduce the rate of tourism VAT from 20% to 5%.
- 4.2** Across Europe, thirty one different countries already enjoy the benefits of a reduced level of tourism VAT. This offers an inherent competitive advantage to these countries and especially

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<sup>18</sup> BHA Back the future for hospitality and tourism (2015)

<sup>19</sup> People 1<sup>st</sup> submission to the APPG for the Visitor Economy inquiry into apprenticeships and skills

<sup>20</sup> As of 20 July 2016

benefits close rivals like Ireland, France, Germany and Spain where reduced rates already apply.

- 4.3** The higher level of VAT not only puts our industry at a disadvantage in attracting visitors from around the world but also affects the long term profitability of the industry. It prevents hospitality and tourism companies from using their profits to invest in their products, train their staff to acquire more skills and to lower prices for the consumers of their services.
- 4.4** A reduction in the rate of tourism VAT to 5% will stimulate investment and consumer spending and contribute £4.2 billion to the Exchequer over 10 years, and lead to a reduction in the UK's balance of trade deficit by £20.2 billion over 10 years.<sup>21</sup>
- 4.5** A report by former Treasury Advisor Professor Adam Blake, using the government's own economic Computable General Equilibrium (CGE) model, concluded that cutting tourism VAT to 5% is "one of the most efficient, if not the most efficient, means of generating GDP gains at a low cost to the Exchequer."<sup>22</sup>
- 4.6** An independent review of the Cut Tourism VAT Campaign's analysis of the economic and job-creating benefits was undertaken in 2016 by PwC and co-authored by Dr Andrew Sentance CBE, who served for five years on the Bank of England Monetary Policy Committee. Dr Sentance's conclusion was that "the campaign's analysis has been well-researched and...the depth of research and the modelling detail has been impressive. The research findings make economic sense...and support the view that there would be substantial benefits to the UK economy from a cut in the VAT rate on tourism-related activities."<sup>23</sup>
- 4.7** The Campaign to Cut Tourism VAT also enjoys significant cross-party political support. 164 MPs have joined the Campaign and two select committees have called on the Government to reduce Tourism VAT.
- 4.8** In March 2015, the Culture, Media and Sport Select Committee recommended that "the Government thoroughly assesses the merits of the claims of the Cut Tourism VAT Campaign by performing its own modelling work and publishes the results of this... This should be the start of a thorough analysis of the scope for cutting VAT on a variety of tourism services, in tandem or separately."<sup>24</sup>

## 5. Deregulation

Since a meeting of the European Council in June 1999 on the topic of 'tourism and employment', the EU has paid greater attention to tourism's contribution to Europe. In its report, 'Working together for the future of European tourism'<sup>25</sup>, the Commission proposed an operational framework and measures to boost the EU tourism industry. The Council resolution of 21 May 2002 on the future of tourism endorsed the Commission's approach and, having set the goal of making Europe a top tourist destination, quickly led to closer cooperation between public and private stakeholders in the EU tourism industry.

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<sup>21</sup> Tourism Respect & Nevin Associates, The full fiscal and employment impact of reduced VAT on visitor accommodation and visitor attractions in the UK (2016)

<sup>22</sup> Tourism Respect, The Impact of Reduced VAT Rates on British Visitor Accommodation, Attractions and the Wider Economy: Results of Dynamic Partial Equilibrium and Computable General Equilibrium Models

<sup>23</sup> PwC, Reduced VAT on tourism on tourism-related activities: Review of the Evidence (2016)

<sup>24</sup> Culture, Media and Sport Select Committee, Tourism Report (2015)

<sup>25</sup> EC Communication (COM(2001) 665)

On that basis the Commission then implemented a wide range of measures and regulations including:

- The launch of a portal to promote Europe as a tourist destination; the portal provides advice for tourists including suggested routes through Europe
- The holding of an annual European Tourism Forum
- A programme to promote sustainable and competitive European tourism<sup>26</sup>
- A European Strategy for More Growth and Jobs in Coastal and Maritime Tourism — which seeks to promote sustainable growth and competitiveness in coastal and maritime tourism<sup>27</sup>

Britain's exit from the European Union provides the UK Government with the opportunity to reconsider some EU regulation pertaining to tourism.

## 5.1 Package Travel Legislation.

**5.1.1** Under the current EU Package Travel Directive, a retailer/organiser of a package tour is liable in case of improper performance of the contractual obligations, even if those obligations were to be performed by another service. Moreover, hoteliers are considered as tour organisers if they provide accommodation in combination with a transport service or other tourism services accounting for a substantial portion of the package.

**5.1.2** The regulations also allow tour operators to impose surcharges when the cost of a package holiday goes up after a booking because of currency fluctuations or rising fuel costs. The company must absorb the first 2 per cent of any increase, and if the surcharge goes above 10 per cent the customer has the right to cancel. With currency fluctuations expected to continue as a consequence of Brexit, the UK government must ensure that businesses and consumers alike continue to be protected post-Brexit.

**5.1.3** The BHA is calling for some deregulation of package travel to allow hoteliers and other hospitality businesses, over 80% of which are SMEs, to work with other local business to offer packages for customers and incentivise them to spend money in the local economy.

## 5.2 Aviation.

**5.2.1** Since 1994, any EU airline has been free to fly between any two points in Europe which has facilitated the growth in low-cost European airlines and forced "legacy" carriers such as BA, Air France and Lufthansa to cut costs and fares. On almost any European journey the typical fare is around half what it was in the early 1990s.

**5.2.2** The EU-US Open Skies Agreement which came into force in 2008, extends this liberalisation of airspace allowing any airline of the European Union and any airline of the United States to fly between any point in the European Union and any point in the United States. Airlines of the United States are also allowed to fly between points in the European Union, however European airlines are not permitted to operate intra-US flights nor are they allowed to purchase a controlling stake in a US operator.<sup>28</sup>

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<sup>26</sup> EC Communication (COM(2007) 621 final) of 19 October 2007

<sup>27</sup> EC Communication (COM(2014) 86 final), of 20 February 2014

<sup>28</sup> IACA, EU-US Open Skies Deal - Not So Open for European Airlines (2007)

**5.2.3** There is little consensus about whether this increased transatlantic competition will have any effect on fares. Some believe the market is already highly competitive whilst other sources predict radical changes.

**5.2.4** The UK is likely to remain part of the European Common Aviation Area (which also includes non-EU but European countries includes Norway, Iceland and Albania), but the UK Government must work to protect the UK's position as an aviation hub and ensure that UK carriers maintain uninhibited access to US airspace and airports. Any negative discrepancy between a UK-US deal and the EU-US deal would negatively affect both UK carriers and consumers.

### **5.3** Bathing water regulation.

**5.3.1** The EU's 1976 Bathing Water Directive - and subsequent successful legal enforcement action by the European Commission - has been instrumental in cleaning up the UK's beaches.

**5.3.2** The success of this initiative has been in spite of initial UK Government resistance. Successive UK governments exploited loopholes and the UK was pumping untreated sewage into the sea until 1998 - longer than any other European country.

**5.3.3** Currently, 60% of UK bathing waters meet the new "Excellent" standard of the revised 2006 Bathing Water Directive. The UK Government must safeguard environmental legislation to ensure to the UK's beaches remain clean and safe, and a draw for visitors – domestic and international.

## **6. Tourist Visas**

A significant aspect of the success of the UK hospitality and tourism industry is the ability for inbound tourists to visit the UK easily. Equally, the free movement of goods and services, investment and people across the EU has facilitated inbound tourism. Britain's exit from the European Union and the possible stagnation, or indeed decline, of visitors from the EU therefore poses a clear threat to the continued success of UK tourism.

**6.1** Visitors from the EU currently enjoy visa-less and passport-less entry into the UK, and an estimated 63 per cent of inbound holidaymakers to Britain are from countries in the European Union.<sup>29</sup> The UK Government must therefore protect visa-free travel. Any perceived threat to the ease with which EU visitors can currently visit the UK is likely to negatively impact EU tourist numbers.

**6.2** The UK must also continue to develop its non-EU inbound tourism market. Over 358,000 Chinese visitor applications were made in the year ending March 2015, and 96 per cent of these applications were successful and granted an entry visa. Nevertheless, these visitor numbers are roughly a third of the number of Chinese tourists that visited France in the same period.<sup>30</sup>

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<sup>29</sup> Deloitte, What Brexit might mean for UK travel (2016)

<sup>30</sup> BHA & Discover Global Network, Luxury Travel Think Tank Report (2016)

- 6.3** Chinese travellers are already among some of the highest spenders in the UK, spending on average £2,688 a head and preferring to use credit cards.<sup>31</sup> For every 22 additional Chinese visitors that come to Britain, an additional job is created in the industry.<sup>32</sup>
- 6.4** The BHA welcomed the Government’s decision in 2015 to introduce new cheaper visas to encourage visitors from China. Despite this important step in visa reform, applying for a visa to the UK remains an expensive and onerous process particularly when compared to the Schengen visa. The BHA is calling on the Government to recognise the importance of international tourists and reduce the cost of UK visas to match that of the Schengen visa.
- 6.5** The BHA would also like to see the current simplified visa model system expanded to include Indian tourists. As it stands, Indian tourists must pay either £87 for a six month visa (compared to £87 for a 2 year visa for Chinese visitors) or £330 for two years.
- 6.5** More than 400,000 Indians visited Britain last year, spending £433 million, with business visitors adding an additional £201 million to this.<sup>33</sup> However, in the past decade, Britain’s market share of India’s outbound tourists has halved, despite the market growing at 10 per cent each year. Had Britain kept its share, it would be welcoming over 800,000 Indian visitors annually – adding almost £500 million to the economy and creating 8,000 new jobs.<sup>34</sup>

## 7. A Competitive and Fair Digital Market

The digital economy provides a range of social and economic benefits to consumers, businesses and the UK economy alike, but without transparency for the consumer, effective regulation and greater understanding by Government it has the potential to stifle business and enable anti-competitive practice and illegal business activity.

- 7.1** Consumers in the hospitality industry use two main types of online platform: those which are used primarily for booking, such as online travel agencies (OTAs) for example Booking.com and Expedia for room bookings and Opentable and Bookatable for restaurants; and metasearch engines (or aggregators) which use other platforms’ data to produce their own results from which consumers can make comparisons between different venues, such as hotels or restaurants. They often direct customers to booking platforms.
- 7.2** These distinctions between search, comparison and booking are frequently blurred, as larger online platforms perform various functions. They also own and have commercial relationships with other online platforms, such as Priceline’s ownership of Booking.com and KAYAK and Expedia’s of trivago.
- 7.3** The majority of the investigation and regulation of these relatively new business areas is taking place at a European level where political understanding appears to be more

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<sup>31</sup> Visit Britain, China Visitor Characteristics 2006-2015

<sup>32</sup> Visit Britain, Tourism Figures February 2016 release [https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/february\\_2016\\_ips\\_memo.pdf](https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/february_2016_ips_memo.pdf)

<sup>33</sup> The Royal Commonwealth Society, A Passage from India- Improving UK visitor visas for Indian Nationals (2016)

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advanced. Britain's exit from the European Union threatens much of this progress, but it also provides an opportunity for the UK Government to lead the way in an evolving digital age.

- 7.4** This Summer, the UK took part in a pan-European inquiry across 10 countries, led by the European Commission to investigate how changes to room pricing terms, and other recent developments in online travel bookings, have affected the market. The project was led by the Competition and Markets Authority in the UK and follows antitrust investigations by several national competition authorities across Europe.
- 7.5** The BHA is calling for greater transparency and an outright ban on rate parity clauses - which prevent hotels from offering lower rates than those on the online booking sites where they are listed. This practice impacts directly on consumers as it results in less competitive pricing with similar room rates offered by online travel agencies and hospitality venues across the board.
- 7.6** Rate parity clauses are already illegal in France and were found to be anti-competitive in cases brought against Booking.com and HRS in Germany.
- 7.7** In addition to banning rate parity, the BHA endorses the House of Lord Select Committee's recommendation that UK Government facilitates the creation of more effective and swifter methods for resolving competition and consumer protection issues and codes of practice for online platforms in this country.