Culture, Media and Sport Committee

Oral evidence: Tourism, HC 614

Tuesday 25 November 2014

Ordered by the House of Commons to be published on 25 November 2014.

Written evidence from witnesses:

– Campaign To Cut Tourism VAT
– British Air Transport Association
– Fair Tax On Flying
– Virgin Atlantic Airways
– Airport Operators Association

Watch the meeting

Members present: Mr John Whittingdale (Chair); Mr Ben Bradshaw; Angie Bray; Conor Burns; Tracey Crouch; Mr John Leech; Jim Sheridan; Mr Gerry Sutcliffe

Questions 112-218

Witnesses: Graham Wason, Chairman, Cut Tourism VAT Campaign, David Bridgford, Director, Cut Tourism VAT Campaign, and Paul Kelly, Chief Executive, British Association of Leisure Parks, Piers and Attractions, gave evidence.

Q112 Chair: Good morning, this is the second session of the Committee’s inquiry into tourism and I would like to welcome, for our first session, Graham Wason, the Chairman, and David Bridgford, the Director of the Cut Tourism VAT Campaign, and Paul Kelly of BALPPA. Angie Bray is going to start.

Q113 Angie Bray: Could I ask each of you to give us an overview of how you see the current state of tourism in the UK and what more you think can be done to promote it?

Graham Wason: Indeed. It is a mixed story, I would say. The United Kingdom has an outstanding tourism product. We are incredibly efficient in how we manage tourism as far as the private sector is concerned, but we are
somewhat constrained by a framework that not totally supportive to tourism being successful. While, on the one hand, I would say that tourism is a success story, it could be far more successful in terms contributing to the United Kingdom GDP and creating jobs.

Paul Kelly: I represent over 300 members right across the country and as we look out the window here we can see a city that is doing extremely well through tourism, but there are a number of cities that do not do so well. There is a massive difference between what happens in London and what we would term as subnational, what happens around the country. I think the connectivity of those two things is possibly the most important thing for the majority of my members and that is about how tourism is dealt with and considered within Government and how the structures are put together to be able to support that. A massively positive story, a great industry, but could do a lot better all around the country.

Q114 Angie Bray: You are suggesting that everybody gets to London and they do not go further?

Paul Kelly: Yes, London is a huge gateway. Luckily, I had the experience of launching the London Eye in 1999-2000. I worked there and—

Angie Bray: Who would have thought it would still be here now.

Paul Kelly: We did not at the time. It only had five years originally but after a couple of years that was changed and that proved to be a huge gateway, but it was a gateway into London. It was not a gateway into the rest of the country and that problem still exists nearly 15 years later.

David Bridgford: I am the strategy director for Merlin Entertainments. We are known as the largest attraction operator in the UK and Europe as well. We are known for large attractions like the London Eye and Alton Towers but we also have about 28 businesses across the UK. We are in Oban, Loch Lomond and Edinburgh in Scotland. We are in Gweek in Cornwall. We are in Stanton and Great Yarmouth in the east and then, in the south coast, Weymouth and Brighton. We see the strength of tourism in the big metropolitan areas and we see how difficult it is in the coastal regions, places like Weymouth. These places do find it very difficult.

We represent both large and small and I think that, while there are many things in favour of UK tourism, it is a very good offer; the issues of access and price competitiveness make it easier for people to think about going overseas and less attractive for people overseas to visit here. The one thing that worries us is the gradual decline in the UK market share of global tourism. We have some statistics on that, which we would be glad to share with you, but year after year, although in absolute terms tourism is doing better, it is doing worse in relative terms and that is something we think we should try to address.

Q115 Angie Bray: Although London seems to be holding its own.
**David Bridgford:** London is very strong and has been very strong over the last couple of years. It has had an incredible boost from the Olympics and Jubilees and Royal weddings, but some of that will fade. It has also had a boost from a relatively weak exchange rate, which is now strengthening against us. The underlying structural issues, of which VAT is a principal one but there are others, remains a significant barrier to doing better.

**Graham Wason:** May I just add that when one talks about London being the gateway, that is clearly so for the majority of international tourists who come to the United Kingdom, but it is not true for the majority of domestic tourists, people coming from all over the country going for days out at the seaside. As well as being chairman of this campaign, I am also adviser to international bodies like United Nations World Tourism Organisation. In addition to that, I am also the owner/manager of my own rural tourism business. I have a single unit, self-catering property, five star, gold award in Somerset. I employ eight people. I am the only employer in the village and my business is not international. It is people who come from Scotland, Wales, England and Northern Ireland. I think it is important to remember that balance.

**Q116 Angie Bray:** Absolutely. How effective do you think the existing national and subnational tourism promotion organisations are?

**Graham Wason:** I would say extremely patchy. I think, particularly since the abolition of the RDAs, the United Kingdom has lost its focus and its recognition on tourism as a key priority. It seems to have lost awareness of the fact that tourism accounts for 10% of our economy and jobs, so it is very patchy. There are some local areas that are extremely effective in marketing and developing tourism, but others where tourism has fallen off the agenda. Bear in mind that with 80% of the tourism industry made up of small and medium sized enterprises, often those businesses in local areas do not have the capacity or the ability to begin to market a whole area.

**Q117 Angie Bray:** But if you have your own business, surely there must be a way for people, because it is in their own interests, to be doing a bit more promotion.

**Graham Wason:** It is very hard. I am also in competition with the other businesses around. I do talk to them.

**Angie Bray:** That can be a good thing. Competition can raise the—

**Graham Wason:** Yes, it can indeed. I join groups. I am a member of an organisation, for example, called Premier Cottages that brings together fellow owners. I am a member of the South West Tourism Alliance. The south-west, I have to say, is one of the better areas. It is quite well organised, but it is difficult to replicate that around the country.

**Paul Kelly:** In answer to the question for me, having travelled a lot around the UK, it is the good, the bad and the ugly. For the constituent MP here for Bournemouth, I would put that in the good category having been
there for the opening of the zip wire from the pier to the beach this year. That was a collaborative effort between the seafront manager and the private businesses there. That is great and that is what it should be.

I can go to other places, Western-super-Mare as an example, where they put tens of millions of pounds into the pier and yet they have no control over where people park or how much it is or how much it costs. How on earth do they advertise that? “Come and visit the pier but we are not sure where you are going to park or how much it is going to be”. It is those sorts of things that are dotted around, so it is some are great and some are not.

Q118 Angie Bray: Why is it you can say the south-west is one of the better ones and then, by implication, there are an awful lot of other areas that are much poorer? Why is that some get it and some don’t?

Graham Wason: Fairly simplistically, because the south-west is the foremost region for tourism and particularly for domestic tourism in the United Kingdom. It represents a relatively higher—

Angie Bray: They have had more experience?

Graham Wason: Yes, exactly so. Every part of the country does benefit from tourism. There are only about six constituencies within the country where tourism accounts for less than 5%, so it is throughout the country but south-west is that much more important. You have some significant businesses down there that are able to work together more effectively than is the case in some other regions.

Q119 Angie Bray: Is there any kind of forum where best practice can be shared and people can discuss how they can do things that work better? Is that going on?

Paul Kelly: There are. A lot of them have their own “Visit” campaigns, Visit Dorset and so on, that get together and they are local businesses, sometimes working with the local DMOs who are sharing best practice. There is a structure there but it is very fragmented, which I think is the point Graham is making. In some places it is there and it is supported, because it needs supporting. In a lot of areas there is no support. Unless people locally are driven to doing that then there is no structure.

Graham Wason: I would add to that that national bodies like Visit England and Visit Britain in the past have been able to provide much more guidance and much more framework to help local areas do their own development. They provide frameworks and guidelines but, with the cuts that have consistently occurred to those organisations over many years, they have had to withdraw on those kinds of support facilities and divert their very limited funds into specific marketing initiatives. That is not to undervalue those, but to say that there are other elements that are necessary for tourism to work effectively.
Q120 Angie Bray: Does the climate have anything to do with it, in the sense that the south-west always seems a more benign, mellow climate where the north struggles with an image sometimes of being a bit tougher, a bit colder? Does that anything to do with it?

Graham Wason: Climate clearly is a factor within tourism. On the other hand, if one takes the whole of the UK I would not say that we have the best climate compared with the southern Mediterranean, for example, and that does not stop us competing very effectively because of the quality of other aspects of our tourism offer. I would not put too much emphasis on that.

Q121 Angie Bray: There always seems to be a row every year when the Met Office gets the weather forecast wrong and then you get hundreds of small businesses in various parts of the country where they are expecting tourists over a holiday weekend who do not arrive.

Graham Wason: Of course, it does happen. As I say, my business in Somerset was decimated in January to March of this year with the floods, but that is an Act of God or whatever. I think it is very hard, either locally or nationally, for one to put in place measures that prevent or mitigate against such a thing. However, if one has overall structures and co-ordinations that are in place perhaps it would have been possible to address some of the issues that occurred with that flooding more quickly.

Q122 Mr Bradshaw: Government seems to recognise the importance of the creative industries for our economy and our future growth, for example. Given the importance of tourism and the potential growth from tourism, why do you think that Government does not seem to have the same recognition when it comes to tourism?

Graham Wason: I think I would start off with perhaps two reasons. The first one is maybe it is just not sexy enough. Everybody loves to get involved with creative industries, with media and personalities. Secondly, tourism, as I have said, is made up of 80% of SMEs. It is not so easy to engage with those. I think it has taken the Government a very long time to wake up and recognise that tourism is a sector that is incredibly important for exports. It is the sixth largest exporter in the UK, 10% of jobs and 9.7% of GDP. It does seem to be occurring and I think our campaign, along with other things, has helped recognition begin to rise. It is encouraging that your own Committee is having a debate about tourism. I think there is still a long way to go, but it is moving in the right direction.

Q123 Mr Bradshaw: Is the current machinery of Government helpful or unhelpful in terms of its structure?

Graham Wason: My personal view is it is not particularly helpful. We are talking about the Department of Culture, Media and Sport. There is no mention of the word “tourism” there. I have to say at the last little reshuffle the present Minister for Tourism had a title that omitted the word “tourism” and I think the Government realised they had made a mistake and had just forgotten about it. It is that level of lack of recognition that is very damaging.
Tourism is an important industry and, therefore, I would have thought it should be recognised alongside other important industries.

**Q124 Mr Bradshaw:** Looked after by BIS rather than DCMS?

**Graham Wason:** That would be my personal view.

**David Bridgford:** There are perceptions that the Government sees it as a nice, little, quaint cottage industry and, to a certain extent, the fact that it is quite a fragmented industry and covers a wide range of different sectors means that a divide and rule approach has been possible. In the last couple of years, through this campaign and some others around visas and the CAT campaign, the industry has started to try to find a single voice with which to try to speak to Government. That has been difficult for Government. That is a failing on our part that we are trying to address but, as Graham says, we are not even third in your list of priorities and yet we think we are a significant sector that could do a lot better. The issues that we face are not priorities for Government.

**Q125 Mr Bradshaw:** You talked a moment ago about the difficulty of connectivity when it came to getting the good visit numbers to London replicated elsewhere. I just want to ask you about a particular bugbear of mine, which is the impenetrability of our rail booking system, particularly for overseas visitors where if you are visiting Germany or Italy you just go Trenitalia or the Deutsche Bahn website and you get the best deals. It is unbelievably difficult for a British person to navigate the rail booking system and find out which are the cheapest advanced fares so that I can get from London to Stratford or London to Exeter. Is that something you are lobbying the rail companies about, or have been?

**Paul Kelly:** That is part of a wider picture. It is not just that. If you talk to the regional businesses they will say every method of transport is impenetrable for anybody trying to get out of London. It is almost that there is a deliberate plan to keep them in there, or that is their view. That makes it easier for people booking through travel agents. In some ways, from my view, it is lazy because it just means they come to London, they have a list, they tick that list off and they go. It is only when you get them back the second time they will endeavour to try to tackle those websites and those areas that get you out of London. That needs looking at for all methods of transport.

**Q126 Mr Bradshaw:** Have you thought of lobbying the Office of the Rail Regulator on this? Is it something that you would consider doing as organisations?

**David Bridgford:** It has not arisen as an issue within our company specifically. We spend a lot of time marketing our attractions and mostly it is a domestic audience that will find its way.

**Graham Wason:** That would certainly be a relevant one to put to the Tourism Alliance. I know you have already met representatives from there. They are looking at the broader range of issues that are affecting the development of tourism.
Q127 Mr Leech: Mr Bridgford, you said that we are losing market share. Who are we losing market share to and from where?

David Bridgford: Some data we have shows that between 2006 and 2013 we lost market share in 28 of our largest 33 markets. We are losing it to all the big markets inbound to the UK: France, US and Germany among others. Who we are losing it to, I do not absolutely have the stats but you can see, particularly with the data on Chinese visa applications and delivery, that the French, Germans and Italians beat us by many multiples in terms of visitation. If you visit any of the major gateway US cities, you can see the welcome they give Chinese visitors. The ease with which the visa application system works in Australia and for the US as well, they have gone out of their way to make tourism as easy as they possibly can and as welcoming as possible relative to the unwelcoming visit they used to give five or 10 years ago.

Q128 Mr Leech: Is there any data on the difference between returning travellers and new travellers? For instance, is it possible that it is to do with a maturing market? London, particularly, has been a big destination in the past and repeat foreign travellers, having been to London, are then going to other cities. We are losing out in that respect. Is there evidence that, with brand new travellers, they are choosing not to go to—

David Bridgford: In terms of the markets where we are losing market share, we are losing both established markets, so the Americans who have been coming here for decades, and we are also losing share in those new markets, such as China.

Q129 Mr Leech: That was not quite what I meant. What I meant was, with travellers from the US or travellers from China, with travellers who have travelled before who may have already travelled to the UK and then are choosing other destinations, having already gone to the UK, we might be losing share there, or are we losing share of brand new travellers, people who have not gone abroad before and are then not choosing to go to the UK?

David Bridgford: Certainly in terms of London tourism, there is still a very high level of repeat visitation and those stats have not changed. I do not have the stats to answer your specific question, but I think the fact that the London repeat visitation number does not seem to be changing indicates that that mix is remaining much the same. We are losing it from all markets.

Q130 Jim Sheridan: Can I just follow up on Ben Bradshaw’s question about connectivity? We know that international travellers, for instance, will travel to London and if they want to go to other parts of the UK not only is it confusing but it is extremely expensive to go to other parts of the UK. Are you doing any work in trying to encourage the airlines to offer direct flights to other airports within the UK other than London?

Graham Wason: If I might suggest, I think that is probably a question for you to put to the next interviewees.
**Q131 Jim Sheridan:** The next panel, yes, but are you working with them or alongside them?

**Graham Wason:** Not specifically on those kind of issues. I am afraid I am not in a position to comment on that.

**Q132 Jim Sheridan:** The problem I have, especially if it is all about families, is if they arrive in London and then they are flying to Scotland they have to pay another APD and it is expensive. They just will not do it and that impacts on tourism. I would have thought you would have a vested interest in ensuring that airlines try to expand their capacity in direct flights outside of London. I thought that would have been something that you would have been pushing for.

**Graham Wason:** We are supportive of anything that makes an environment that is more conducive to growth and the success of our tourism sector. There are other bodies out there that I believe are doing a very good job in lobbying for improvements in transport issues. It is not an area that we specifically get involved in as the Cut Tourism VAT Campaign.

**Q133 Conor Burns:** Can I go back to your comments about the Government department within which tourism sits? You are pretty robust in what you say of them. You accuse them of ignoring the VAT campaign. You say they failed to take seriously the long-term decline of British tourism, putting jobs at risk. Yet you then go on to cite some evidence from Professor Adam Blake of Bournemouth University, a very good university, who is a Treasury adviser. He says, “Reducing VAT on tourism was one of the most efficient, if not the most effective, means of generating GDP gains at low cost to the Exchequer that I have seen with the CG model.” If the case is so compelling, why do you think that DCMS are ignoring you?

**Graham Wason:** As I understand it, there are two parts to the question. The first part was about whether or not DCMS is taking our sector seriously. Of course, things are never static and we have seen a succession of Ministers responsible for tourism over many years. A former Minister for Tourism, John Penrose MP, at first was sceptical about our campaign. We had an opportunity to meet him and take him through the arguments and all our research. He became very convinced by it and it was he that enabled us to meet David Gauke three years and five months ago, as a result of which we were then invited to meet Treasury officials. The Treasury officials gave us access to their own model and introduced us to Adam Blake who then did the work on the model. That clearly was with Treasury. Since then the door has been closed with Treasury and we have had no further interaction with them and, at the same time, we have had no further constructive interaction with the Department of Culture, Media and Sport.

**Q134 Conor Burns:** When was your last meeting with the current Minister for Tourism on this subject?
**Graham Wason**: We have not had a meeting on this subject with the current Minister for Tourism. We have requested that and our request has been refused.

Q135 **Conor Burns**: How many times have you requested that?  
**Graham Wason**: Three, four times.  
**Conor Burns**: Three or four times?  
**Graham Wason**: Yes.

Q136 **Conor Burns**: What reason is given for no meeting materialising?  
**Graham Wason**: The reason given is because she says it is a Treasury issue, not an issue for her department.

Q137 **Conor Burns**: You are telling the Committee that the current Minister for Tourism is telling you that, on something that could give a significant boost to the UK’s tourism sector, that is not a matter for her?  
**Graham Wason**: That is correct.  
**Conor Burns**: She does not see it as her role to lobby on behalf of the tourism sector with the Treasury?  
**Graham Wason**: That is correct.

Q138 **Conor Burns**: That is criminal. I use that word advisedly. The new Secretary of State, of course, is known to be very close to the Chancellor. Have you thought about trying to go above the head of the Minister for Tourism, who seems to want to ignore tourism, and speak directly to the Secretary of State?  
**Graham Wason**: Yes, we have attempted that as well. I would say that that door is not closed. We have had meetings with said official prior to his current appointment at which he was definitely interested in the campaign. Since then we have not been able to set up a further meeting, but we continue to endeavour to do that.

Q139 **Conor Burns**: You will be aware, as has already been referenced, of the fact that Bournemouth, the constituency I represent, is one of the UK’s leading tourism destinations. Were you minded to ask me, in my capacity both representing Bournemouth and sitting on this Committee, to facilitate a meeting with the Secretary of State you would find a very warm response indeed.  
**Graham Wason**: Thank you very much indeed. That is duly noted.

Q140 **Conor Burns**: Good. Can I, just for a moment, go to the micro of this? You mentioned the zip wire, which is a wonderful innovation and something I admire from a distance when I am in Bournemouth. What role do you see of
local authorities sharing best practice in terms of promoting tourism? For example, in Bournemouth a few years ago we set up the Air Festival, which is now nationally recognised. We had over 1.4 million visitors to Bournemouth this August who came to see the Air Festival. Then last year they started the Wheels Festival, so our local authority is quite innovative in come up with new things. To what degree do you think that sort of best practice is shared among local authorities and what role do they have in tourism?

**Paul Kelly:** From my experience, there are a number of authorities that do that. Event-based tourism is one of the biggest growth areas, where people will go to a destination for an event and then stay on for more than one or two days. The biggest growth area, with substantive growth, is short breaks. Prior to the period of austerity, with the staycation, everyone went abroad allegedly. Now people have stayed in the UK. People have invested in their products. The accommodation sector with relation to attractions and resorts has grown and that is the biggest growth area. That has not gone away. That has stayed up even though people are still travelling. There are extra bits and pieces there.

What needs to happen, as it does in Bournemouth, is the creation of forums where local authorities can allow local businesses, tourism businesses, who have ideas to get those ideas, excuse the pun with the air racing, off the ground. They have ideas. What they do not have is the forum and the right skill set of people within those local authorities to be able to realise them. That is what we need more of. There are a number of examples, I am not saying Bournemouth is the only one, which are very good but that needs to be replicated on a much wider basis.

**Q141 Conor Burns:** How does that happen? Again, for example, in Bournemouth we recognised the age of austerity. The local authority talked to local business and they came up with a thing called the Business Improvement District, where local businesses then pay into a fund and they decide how that can be spent to improve the town, to promote the town and to give seed funding to innovative new ideas.

**Paul Kelly:** Well, it all comes down to funding, as it always does. With the best will in the world there has to be a partnership set up and there has to be, whether it is a bid district or whether it is any of those grant-aided organisations, a will from the central area, whether it is DCMS or whoever is running it, to set that structure in motion, to fund it and perhaps back Visit Britain or Visit England slightly more to be able to push that down from the level it is at. If you ask Visit England, they believe they have the initiatives. What they do not have is the funding.

**Q142 Mr Sutcliffe:** Continuing with that theme, we have heard about the fact that you cannot get to see the Minister. Do you think you have the right officials in DCMS with the right expertise in terms of developing tourism?

**Graham Wason:** In terms of how they have related to this very specific initiative, I would have to express some reservations about that.
Q143 Mr Sutcliffe: The reason I say that is, going back to this London-centric, in Yorkshire we have “Welcome to Yorkshire”, which is a body that has its own funds and its own membership. It brings in its own revenue from that membership and has been very successful this year with the Grand Depart Tour de France. We have not had the figures from the Tour de France yet, but we know already there has been an increase in tourism in Yorkshire. Do you see that as a model that might be able to be used elsewhere in the country?

Graham Wason: On your Committee we have some leading lights in terms of coming from areas that have recognised the importance and benefit of tourism and have worked with local industry and local associations to make it very successful. Bradford and Yorkshire are other examples of where that has happened.

I think in the old days when the English Tourist Board was better funded that would have taken those models, wrapped them up into a good practice framework and then taken those to local enterprise partnerships and said, “Look, here is a way you can develop tourism”, but those local enterprise partnerships have no requirement to take tourism. If they do not have the vision themselves to recognise the potential, they just do not take that up.

Q144 Mr Sutcliffe: I think you are right that the demise of the RDAs and the demise of the Government offices in the regions means everything comes through here and that is a major problem, but the good news for us in Yorkshire was that, through the leadership of Gary Verity, it became a subscription organisation that people are happy to join.

Graham Wason: There was a very good story in The Yorkshire Post this morning, as you are probably aware, about how cutting tourism VAT will help Yorkshire and Humberside generate over 10,500 jobs.

Q145 Tracey Crouch: Can I just drill down a little bit further into the issue around VAT? Can you just explain specifically where the figure of £3.9 billion came from? Also, can you explain a little bit further how you get the figures per region that you just gave in response to Gerry and what the margin of error in the calculation might be?

Graham Wason: Yes, surely. The figures originally came from a report undertaken by Deloitte, together with myself as a co-author. I am a former partner of Deloitte specialising in tourism. This report has been updated a number of times, over a number of years. It uses a model that has been tested out on eight different occasions. It has been informed by the experience in 17 other countries where changes in VAT have occurred and the impact on tourism numbers has been measured. We believe it to be very robust.

The model assumes that there is a cut in VAT from 20% to the United Kingdom’s existing reduced rate of 5% and shows what the impact would be. It uses what I believe to be extremely conservative assumptions about how that would be passed through towards lower prices, investment, training and increased employment and then shows, from each of those impacts, what comes back to the Government in terms of reductions in unemployment benefits, employment taxes on increased employment, taxes on new building
and construction and so on throughout the economy. It shows the impact then on a year by year basis and looks over 10 years and then discounts each year's value to present day values. That is how the figure of £3.9 billion has been derived.

**Q146 Tracey Crouch:** You say your margin of error after all of that is very little?

**Graham Wason:** I think it is as robust as you can get in terms of modelling a hypothetical case. Of course, the Government says, “Well, it is all hypothetical”, but you can look at what has happened elsewhere. Ireland is a very good example. The Republic of Ireland saw the light in the 1980s in fact and reduced VAT then from the standard rate down to a reduced rate.

**Q147 Tracey Crouch:** What is their reduced rate?

**Graham Wason:** Interestingly, it was at 13.5% at the time of the recent financial crisis. As you know, Ireland was facing an economic crisis far worse than that of the United Kingdom. Therefore, they increased the standard rate of value added tax from 21% to 23% and, at the same time, further reduced the rate on tourism from 13.5% down to 9%. That was intended to be a temporary measure. The benefits have been so positive it has been extended indefinitely. Two recent reports, one by Deloitte and one by a local research institute, coming out in July of this year have measured all of the positive benefits that have come from that.

What I find is the most interesting statistic of the many positive impacts is that the Government had been saying that the cost of this was going to be £350 million lost to the Irish Exchequer. In fact, the loss in the first year was only £107 million. In other words, the Irish Treasury’s estimate had been overestimated by 327%. If you apply that same figure to our Treasury’s spurious estimate of a £2 billion cost you would come out with a figure of £610 million loss in the first year, which is precisely the figure in our model.

**Q148 Tracey Crouch:** When you were talking about your modelling you mentioned that you had looked at the experience of 17 other countries. How many of those were EU countries?

**Graham Wason:** All of them were included, except I think Norway and Iceland. They were almost all EU countries.

**Q149 Tracey Crouch:** In an answer to an earlier question from John Leech you talked about market share and the fact that the British tourism industry was losing market share to the US and China. Do you what are their VAT rates are?

**Graham Wason:** Yes. Bear in mind accommodation includes camping sites and self-catering like my business as well as hotels. The average VAT rate on visitor accommodation in Europe is 10.8%, so it is half what it is in the United Kingdom.
In terms of adding to what David was saying earlier on about the loss of UK market share, we have lost out both in terms of emerging markets, as David said, but also against our European competitors.

Q150 Tracey Crouch: We have had experience of EU VAT legislation, harmonisation legislation, impacting other sectors in the past and how EU VAT laws have sometimes been cited as a reason why we cannot do certain things. For example, I believe there is an existing court case at the moment around the fact that we have a reduced rate for the renewable product sector. We had a very long argument in Parliament, which has now been resolved, about having a reduced rate of VAT for air ambulances. Do you see that, because there are reduced rates applied in other European countries, there is no EU harmonisation legislation that would prevent us from cutting VAT on tourism?

Graham Wason: This measure could be implemented tomorrow with no changes to EU legislation, no changes to domestic legislation and no further complexity to the system. Whether you love the EU or hate them, the current EU rules are that you are allowed to reduce VAT for a limited range of goods and services. Tourism is one of those goods and services. It is included on the list because it is recognised that it is internationally competitive and also that it is good for job creation. That is why 24 out of 28 EU member countries already reduce the rate of VAT.

Q151 Tracey Crouch: Which country has the lowest VAT rate?

Graham Wason: The lowest is Luxembourg with 3%.

Q152 Tracey Crouch: Off the top of my head, I would think that our main tourism competitors are the Mediterranean countries with their warmer climates as was mentioned earlier. What are the rates in, say, Greece, Spain and Portugal?

Graham Wason: Tourism is complex. For different markets we are competitive with all countries. If one takes those Mediterranean examples, the average is about 10%. In Italy and Spain it is 10% and 6% in Portugal, but it is 6% in Belgium and Netherlands. It is 7% in Germany and Germany is also a major competitor for certain elements of our tourism industry.

Q153 Tracey Crouch: What made you settle on 5%? Is that just because of VAT rules in the UK; 10% would not be an option because it would breach reduced rate rules?

Graham Wason: Yes, the rules are that each member country is allowed to have two reduced rates and those reduced rates can be anywhere between 5% and 15%. 5% is the lowest permitted and 15% would be the highest permitted. The UK currently exercises its right and only has one reduced rate. Because the Government has also said they want to keep the tax system completely simple, the existing 5% rate is the rate we have gone for. However, it would be an option, should the Government choose, to introduce a second reduced rate of 15% or 10% or whatever and apply it to that.
Q154 Tracey Crouch: Have you done modelling for those hypothetical rates?

Graham Wason: We have.

Tracey Crouch: What does 10% say in terms—

Graham Wason: Interestingly, the figures are not as different as you would expect. Of course, the fiscal deficit does go down in the first year but not by a huge amount. We can get it down from about £650 million to about £550 million, and the benefits, of course, go down, as well, and go down significantly.

The interesting thing is that currently the United Kingdom has double the rate of VAT of the average in the EU, so we are losing out. If we went to 5%, which is easier to do, the precedent is there. The Government already applies a 5% rate of VAT to hotels in the Isle of Man, so the Government does understand this principle. If we put it down to 5% we would begin to claw back some of the disadvantage we have had for the last 20 years.

Q155 Tracey Crouch: You do not appear to advocate applying the reduced rate of VAT to restaurant and catering services. Why not?

Graham Wason: There are several reasons for that. One reason is that the cost of applying it to restaurants and catering services in terms of the direct loss of value added tax is very significantly greater and we do not believe that is a feasible or realistic ask in the present economic climate. A second reason is that it is on accommodation and attractions that we are more internationally competitive. There are not as many people who travel internationally to go for a cheaper meal, but they do travel internationally for cheaper accommodation and cheaper attractions. The third reason is that the disparity with the rest of Europe is far greater on accommodation and attractions than it is with VAT on restaurants.

Q156 Chair: If I was the Minister for Treasury, I am looking at trying to get down the deficit, that being the greatest problem facing the country. Even on your own estimate you are saying this is going to cost £650 million in year one and I am looking at year one. I am not too fussed about what happens year two, three, four. Year one, I have a deficit and you are going to put it up by another £650 million. You can see why the Treasury is not terribly attracted by this argument?

Graham Wason: I can, indeed. My response to that is, “Well, yes, sir, Treasury Minister, I do understand that, but you are contemplating other investments to help the economy and create jobs, such as reducing fuel duty, corporation tax, national insurance payments and even possibly the general rate of value added tax. Your own model demonstrates that cutting VAT on tourism is a far better measure to create jobs and generate a contribution to United Kingdom GDP at virtually no cost to the Government”.

David Bridgford: The Government are cutting corporation tax because they believe it is important that the UK has a competitive rate and
they want to put the corporation tax rate at the best end of the international league tables. They are making a much larger investment in that change and our argument is that this investment is also to put tourism on a level playing field in the same way that they believe putting the corporation tax rate on a level playing field is appropriate. It is slightly curious that they will present a level playing field argument with one tax that has a higher cost than this, which has a potentially smaller cost.

_Graham Wason_: We asked for an independent report on that comparison of the Government’s own model, looking at corporation tax with the Government’s own model looking at cutting tourism VAT, undertaken by PwC and that confirms the findings of Professor Blake that cutting tourism VAT is a far more efficient measure.

_Q157 Chair_: But only of benefit to tourism businesses.

_Graham Wason_: No, absolutely not. This is a benefit to the whole of the UK economy. It is a £4 billion contribution to the whole of the UK economy and the reason for that is because tourism filters throughout the economy. It generates business for retail and food, every part of the economy benefits. That is what is being measured. We were required to use the Government’s model because it does look at the impact on the whole economy, not just the tourism sector.

_Q158 Chair_: But it the case that the lobbyists for a cut in almost every single different tax will tell you that it can be demonstrated that over time it is going to generate more income than it costs. That was the argument that was made by the Fair Fuel Campaign. I suspect it is an argument we may be about to hear from the next set of witnesses about air passenger duty. If you are in the Treasury business, it is very familiar ground. Again, you can understand why they are not wholly convinced.

_Graham Wason_: We are not here, naturally, to argue for any of those other worthy causes. I believe any cause that looks for growth through a reduction in tax has merits. What I would point out are the particular aspects of tourism. Tourism is the only one of those that you mentioned that has a direct benefit on exports and Britain’s balance of payments. We have again had work undertaken by PwC comparing, for example, the merits and demerits of air passenger duty against cutting tourism VAT. We are absolutely not here to argue for one over the other. We believe both are constraints on the growth and success of the tourism sector, but the fundamental difference that PwC point out is that the export benefits of cutting tourism VAT are significantly greater. The reason for that is, if you cut tourism VAT on Britain’s tourism, you encourage more British families to take days out, short breaks and holidays in the UK rather than travelling abroad and you encourage more foreign visitors, so you get double the benefit. However, if you cut air passenger duty, of course you make it cheaper for people to come to the country and you make it cheaper for Brits to leave.
Chair: If I am the Minister for Treasury with a limited amount of money available to help the tourist industry, I would be better to spend it on cutting VAT than cutting APD?

Graham Wason: From all the evidence that I have seen, I would say that case is compelling.

Chair: We will see whether the next panel agree with you.

Paul Kelly: With APD, if you want to benefit Dudley Zoo and Blackpool and Great Yarmouth then the argument is greater for this than it is for APD.

Conor Burns: What about Maidstone?

Graham Wason: Exactly, all of those places.

Conor Burns: The Minister for Tourism is disadvantaging her own constituency by not considering your case.

Graham Wason: Yes, I agree.

Chair: Those are all the questions we have, so thank you very much.

Witnesses: Nathan Stower, Chief Executive, British Air Transport Association (and representing the Fair Tax on Flying Campaign), Sian Foster, General Manager of Government and External Relations, Virgin Atlantic, and Darren Caplan, Chief Executive, Airport Operators Association, gave evidence.

Q161 Chair: Good morning. For the second session this morning I am delighted to welcome Nathan Stower of the British Air Transport Association, Sian Foster of Virgin Atlantic and Darren Caplan of the Airport Operators Association.

Angie Bray: Good morning. Can I start by asking you what your assessment is of the current state of the UK tourism industry and where its best prospects for improvements might be? I do not know who wants to start with that.

Nathan Stower: I will make a start. I am the Chief Executive of the British Air Transport Association, but also speaking for the Fair Tax on Flying Coalition today on Air Passenger Duty and that represents a grouping of airports, airlines, and other tourism groups as well; so two hats today.

Speaking from an airline perspective, we have come through a very difficult period. The recession, because of international business travel, had a big impact. I was looking at the numbers this morning in advance of coming here and there was about a 20 million drop-off from the peak of about 238 million passengers just before the recession. Over the last couple of years it is growing again, but we are below those peak levels. It has been a difficult time, but we have seen growth in certain markets and there is lots of work in
terms of where that growth will come in the future. Some of our stable markets, America and Japan and some of those markets, have been difficult, but there has been more growth in China and the emerging markets. Having said that, I understand our market share has fallen in some of those markets.

**Sian Foster:** In terms of the UK’s competitiveness, we carry people out of the UK but we also bring passengers into the UK as well. Each of those ticket sales that we make overseas should be considered a UK export because it contributes towards jobs, spending, investment in the UK and in UK business. I think the UK is seen as an expensive place to visit from the perspective of visa charges, air passenger duty and a variety of other things. The focus for a lot of us is about demonstrating the attractiveness of the UK as a destination and a lot of work has been done by the Home Office and others to simplify the visa process and make sure that people realise that should not be a barrier to them coming to visit the UK.

**Q162 Angie Bray:** Coming back to my question, are you saying that the current state of UK tourism is on a slippery slope downwards?

**Sian Foster:** I think we need to work very hard to demonstrate that we are competitive. There are a lot of other countries investing a lot of money in their tourism industries and, just as we compete with other airlines to attract people to fly with us to the UK, the UK needs to make sure that it is competitive with other European countries when it comes to attracting visitors in the first place.

**Darren Caplan:** Thank you for inviting me today. I am representing airports across the UK. My starting position would be what the Prime Minister said back in 2010, that he wanted the UK to be a top five tourist destination. Like Nathan, I looked at the figures today and the current figures show that we have slipped to eighth, behind Turkey and Germany. So we are not a top five tourist destination, although the figures are going in the right direction. I think we are growing. One of your previous guests on the panel here said that the numbers are going in the right direction but not as fast as our competitors, so that is the problem.

We could do a lot more and, as Sian mentioned, there are issues around connectivity, APD and visas. All those things could help us be even better than we are currently. From an aviation point of view, obviously we think we are crucial to tourism. I think it is 3 million jobs and £125 billion GDP is tourism. 75% of tourists come here by flights, and on outbound tourists I think it is about 60% of all expenditure on overseas trips is by air. Aviation is crucial to tourism. We can help grow those numbers.

**Q163 Angie Bray:** You have touched on a few of the issues. Where do you think the best prospects for improvement lie? Is it all around the competitiveness and the taxes and things?

**Darren Caplan:** Are you talking geographically or in terms of types of people—
Angie Bray: I am basically saying where do you think the best prospects for improvement are, and getting that shift more quickly?

Darren Caplan: Yes. Inbound, outbound and domestic tourism could all be improved by having better policies on connectivity, air passenger duty and visas. It is a mix of people. For example, we want to have people going on their once a year holiday to Spain. APD is very high at the moment. We are doing a campaign at the moment on child APD to try to make sure that families get a break if they want to go overseas, but we want to attract inbound people as well. At the other end of the market, we want to attract Chinese families here. I think Chinese families are paying £672 on APD and visas combined. That is a lot of money to spend before you even go to a restaurant or have any part of your holiday. At the top end of the market or the mid-range there is a lot more we can do to attract people to the UK and to enable people to go overseas.

Q164 Angie Bray: But is it all to do with the competitiveness and the cost? Is it also about the quality of the holidays we are offering? There must be something in what the offer is as well as what it is costing.

Sian Foster: Absolutely. It is a range of different things, but I suppose air passenger duty is something that is relatively easy to change. We saw a rebanding back in the March budget this year that was very well received by a variety of international trading partners, India, China and the Caribbean as well. It is relatively straightforward to do something that—

Q165 Angie Bray: It is less easy to improve the quality.

Sian Foster: I think it is a longer-term investment, but it is a lot of work about education, engagement and demonstrating what the UK has to offer. If people are spending more on their holiday before they have even arrived at the UK, they may be curtailing the length of their time here and they may not be going beyond London. They may just be staying in London and not visiting the rest of the UK.

Nathan Stower: Visit Britain is all about value and there are two sides to value: there is the cost and there is the offer. That is the same with an airline. It is the price of your ticket and it is also the service you offer. It is not one or the other; it is absolutely both.

Q166 Angie Bray: In promoting tourism, what relative priority do you think should be given to outbound, inbound and domestic tourism? Where do you think the priority should lie?

Darren Caplan: I have to be honest, I do not think there should be a priority. ABTA did a very good study a couple of years ago on outbound tourism and it basically showed that outbound tourism accounts for 3.8% of UK GDP. People spend £538 a head before they go overseas on a variety of services. Inbound tourism obviously is an export for us. It brings people here, but domestic tourism is very important as well. People do not just go about the UK by train and car. On some journeys they are going to fly. I hate to
come back to APD again, but on a domestic trip a family of four flying from, say, Southampton to Edinburgh will pay £104 in air passenger duty. That can be up to half or a quarter of the price of the ticket. I do not want to keep coming back to the issue but that is a key player.

In terms of the three parts of the market, they are all important and we should all be encouraging as much activity as possible because that benefits individuals and businesses all around the UK.

**Nathan Stower:** From my membership point of view, a lot of my members have a lot of inbound traffic. You want to fill your planes both ways, it is that simple. The outbound market is just as important as the inbound market.

**Sian Foster:** Absolutely to concur with that. We carry both passengers into the UK and out of the UK on our planes as well as cargo. A PwC report done 18 months ago around APD and the value to the UK economy of abolishing it found that it would have a positive impact on the number of people visiting the UK. Yes, absolutely more people would travel overseas from the UK, go on holiday overseas and go and visit friends and relatives, but equally even more people would come to the UK from further afield and spend more once they were here. The net benefit to the UK economy is positive.

**Q167 Angie Bray:** I think my colleagues are going to be talking about all of this, but let me just ask a couple more questions if I may. Do you notice, for instance, that an awful lot more people will still be coming to London for a tourist break of some sort than perhaps other parts of the country? Can you tell where the popular places are using your figures?

**Sian Foster:** Virgin Atlantic flies into Heathrow, Gatwick and Manchester.

**Q168 Angie Bray:** Is London by far the most popular tourist destination?

**Sian Foster:** It is where people start their journeys, I think.

**Q169 Angie Bray:** They tend to fly to London for tourist purposes and then—

**Sian Foster:** Then add on to their trip.

**Angie Bray:** We need to encourage them to move on?

**Sian Foster:** Yes, absolutely.

**Nathan Stower:** 32% of all inbound traffic is into Heathrow of all airports across the country, so Heathrow is a vitally important part as well as other airports, but London is the gateway to the rest of the country.

**Darren Caplan:** It is about gateways, so wherever they come into the UK they may stay in that place or they may just want to go out in the country. We want overall numbers to go up. Every one of our commercial airports is a gateway to the UK. We do not have an issue about where they arrive as long
as they are spending money here and they are going about their business and benefiting the UK economy.

**Q170 Jim Sheridan:** Could I ask a similar question to the one I asked the previous panel about connectivity? You will be aware that families coming to the UK will arrive in London and, should they decide to go elsewhere in the UK, it is extremely expensive. There are some airlines that have the monopoly. For instance, British Airways, if you wish to travel from Heathrow or Gatwick to Glasgow, have a monopoly on it. There is a vested interest for them not to have direct flights to places like Glasgow and so on. Are you lobbying or are you trying to encourage the major airlines for more direct flights to other cities in the UK rather than London? For a family arriving in London it would cost a fortune to travel elsewhere, so they just stay put in London, which is somewhat of a shame. Are we pressuring or lobbying airlines for other direct flights? For instance, the Virgin Atlantic flight to Florida from Glasgow has full flights all the time and so on. Obviously there is a demand and a market for it.

**Sian Foster:** I think we respond to that market. When there is sufficient demand to warrant a long-haul flight then we would obviously look at serving that market. We have announced relatively recently that we will be starting Belfast to Orlando services next year and that is a relatively small number to begin with. However, just as we did with Glasgow, as the market demonstrates its size and growth we would look to see whether that would be worth growing in the future.

The issue we have, as a predominantly long-haul operator, is we have to be confident that we can fill a large aircraft. You cannot just put half a plane on to a route, so we have to be pretty confident in the size of the market before we launch services. That is absolutely something that we keep under review constantly to see where the next market is.

**Q171 Jim Sheridan:** I do not want to just single out British Airways, but what is the incentive for British Airways to have a direct flight from Spain, for instance, to Glasgow when they can get a flight from Spain to London and London to Glasgow? They get double done as opposed to one?

**Sian Foster:** I struggle to speak on behalf of British Airways as I am with Virgin Atlantic, I am afraid.

**Nathan Stower:** I would want to defend British Airways, as a member, but Virgin Airlines is also a member of mine, so I probably would stay out of that debate. It is worth saying there would probably be more demand for a direct route than there is for an indirect route, purely because of the convenience and sometimes indirect routes can be more expensive. They will be looking at the demand for it, direct route versus an indirect route, and maybe at the moment on certain routes the demand is not there for a direct route, but that will obviously be a question for them.

**Sian Foster:** Obviously we are a highly competitive industry and compete with other airlines, but it is something that I would be happy to talk to
members of the Committee bilaterally about rather than confronting competitors.

**Q172 Jim Sheridan:** Does it concern you that people are now bypassing Heathrow and going direct to Schipol?

**Sian Foster:** I think it should concern everyone. Virgin Atlantic, British Airways, Nathan’s BATA members are British carriers. We employ a lot of people in the UK. We invest a lot of money in the UK. We are British businesses and so it should be of concern that it may be easier for people to bypass UK airports and UK airlines, and the revenue loss to the UK and the taxation loss as well.

**Q173 Jim Sheridan:** It is damaging jobs as well. Is there any tangible evidence that you are putting real pressure on the big airlines to have more direct flights rather than go through London as a hub?

**Nathan Stower:** I would turn it back on Treasury and the department and the politicians to say that airlines respond to demand. We are talking today about policies that might stimulate demand in terms of reducing air passenger duty and making it more competitive, in terms of opening up capacity in the south-east, and so on. That is where fundamentally you will get sustainable routes. You can look at schemes, but what we want is connections over the long term and that is about getting demand increased over the long term.

**Q174 Jim Sheridan:** Finally, you will be aware politically that there is an argument going forward that APD should be devolved to the Scottish Parliament. Is there any evidence that that will benefit the consumer, the traveller?

**Sian Foster:** I think that the arguments for devolving APD to Scotland with a view to reducing it are the same arguments that should hold for the UK as a whole. There is a strong business case for reducing APD to make the UK more competitive when it comes to attracting inbound tourists from around the world and business travel as well.

**Darren Caplan:** A cut in APD should be a cut all over the UK.

**Q175 Mr Leech:** We have received plenty of evidence to suggest that the London tourism market is doing very well but it is not spreading out to all parts of the United Kingdom. What impact do you think an increase in runways in the south-east would have in terms of encouraging or discouraging tourism in the regions?

**Nathan Stower:** The evidence is that over a period of 20 to 30 years we have lost a number of regional connections into the hub airport, Heathrow. Back in the early 1980s it was around 16 and Darren will probably correct me. I think now we are down to six or seven from the regions into Heathrow. Inevitably, if capacity was expanded there then, while the spots would be allocated by airlines in terms of demand, I can see definite outcome being more regional routes into the hub airport. Especially for the network
operators, they are looking at feed into the hub to fill their long-haul operations. I think that will be a direct consequence.

**Darren Caplan:** Can I just draw you to the passenger forecast I mentioned earlier on, the DfT forecast last year that passenger numbers would roughly double by 2050? They were saying that airports in the south-east would be full up by 2030 and airports outside the south-east would start filling up from 2040, so that includes Birmingham, Bristol and East Midlands and Manchester. It is not just a south-east issue on capacity. It is something that you have to look at across the board. The Airports Commission is something that is happening right now, but also how do we make more use out of existing capacity and how do we plan for the future? Do we have a planning regime in favour of sustainable development if those airports need to grow in the future? It is not just one part of the country there is an issue with.

From the AOA perspective, we think we need excellent connectivity right across the country and that includes both point-to-point airports and sufficient world-class hub capacity. Any airport that wants to grow should be allowed to grow and this is vital if we are going to link to all markets around the world. I appreciate the basis of your question, but the answer is it is a whole UK answer, not just a south-east answer. If you look at the Airports Commission, he does not just talk about the runway debate, which is what we are all exercised about what is coming up next year; he does talk about airports around the UK and what needs to happen in the meantime before more capacity comes on-stream in 15 to 20 years’ time. We need the full package.

**Q176 Mr Leech:** Would you accept that runway expansion in the south-east makes it more difficult for airports around the regions, the likes of Manchester and Birmingham, to attract more new direct routes on long-haul routes if the likes of China can choose to fly to Heathrow?

**Darren Caplan:** I understand. All airports have different views but they would say that where you need to have one stop and you cannot hub from somewhere else that is equally as important as a direct route. Obviously they are flying from different places and hubs around the world. I will go back to my previous answer, which is that we just want to have more people flying generally. That benefits the UK generally. All our airports have plans to expand and grow, but they also have individual views. As a sector, the numbers are going in the right direction and our fear as AOA is that in 35 years’ time we want the capacity for a variety of members, not just the two involved in the Airports Commission debate in terms of next year’s decision.

**Q177 Mr Leech:** Is there any evidence that the reputation of London airports has been damaged because of the debate around capacity and that might be putting off tourists coming into London?

**Darren Caplan:** I think the reputation of airports is generally positive. They are investing heavily. The facilities are getting better. Our connectivity is getting better in terms of surface access, which is key to tourists because for them the door-to-door journey is as important as anything else. When they arrive, whether it is in London, Manchester, Birmingham, Edinburgh, Glasgow
or wherever, they want to be able to get to their hotel easily and they want
decent connections on the ground. It is a variety of things that go into it.

Generally, I think the reputation is positive. The more concerning issue is
things like borders where, if we do not get people through in certain times—
25 minutes for EEA passengers, 45 minutes for non-EEA passengers—the
reputation goes beyond that and people see it as an airport issue rather than
a Home Office issue. In terms of facilities and connectors, the UK airport
system is quite positively received.

**Q178 Mr Leech:** From a reputational point of view, though, do foreign
tourists think that it is more difficult to get through UK immigration than it is for
France or Germany?

**Darren Caplan:** I think there might be a perception at certain times, yes.

**Q179 Mr Leech:** Is that a fair perception?

**Darren Caplan:** In fairness to the Border Force, they have a new DG who
has been in place for a couple of years now, Sir Charles Montgomery. They
have moved in the right direction and they have prioritised economic well-
being as well as security, so it is going in the right direction. Our view on
borders is that there could be more local flexibility. There is no reason why
say, for example Liverpool Airport should have the same service level
agreements for getting people through borders as, say, Heathrow or Gatwick.
You should have that flexibility locally to have targets that are reasonable.

Most of the time people get through in good time, but sometimes the
perception still persists, particularly from before the Olympics a couple of
years ago, that sometimes you can have full border halls. I say again, the
concern for us is that it is not the airports’ fault. They are investing. They are
even putting their own money into things like eGates, but the perception is
the airport is responsible for the border hall, even though it is actually the
Home Office.

**Sian Foster:** Just building on that, before people even get to the UK there is
a perception that the UK borders are difficult. China is a good example. A
couple of years ago there was a real perception that it was difficult to get a
UK visa if you were Chinese. There was a high probability you would get
turned down. You might send your passport off and not get it for a while and
that forms were in English and not Mandarin. There has been a huge
investment by the Home Office but also with airline partners and other
tourism partners to demonstrate that you can have confidence in the process;
making sure there is a big engagement programme with us and with travel
agencies based in China to demonstrate that it is straightforward to get a
visa; and that there is a high likelihood that if you fulfil the criteria you will
get your visa and your passport back in a timely fashion that enables you to
travel to the UK. That investment has been very well received and I think
what we would like to see is that replicated elsewhere in the world, so in other
tourism markets that we are trying to invest in and attract business to the UK.
It is not just when people arrive here. It is before they have even thought about buying their ticket.

**Nathan Stower:** I echo all of that. The problem is that perceptions can last. That is why the airlines are working closely with the Government over there to change those perceptions. What I would add is that sometimes, when we have nuanced debates around immigration and other wider issues, that can sometimes get into some of the overseas markets’ national press and just create a perception of being unwelcome. It is not about the specifics of the debate. It is just the overall impression that can have an impact in some of the local markets.

**Q180 Tracey Crouch:** Let us turn to the nitty-gritty of taxes and fees. What you think would be a fair tax on flying.

**Nathan Stower:** The magic question and there is a variety of opinion. Probably you will have seen occasionally in the press that different people talk about what they think is a fair tax on flying. Fundamentally the campaign is, as I said, we need to get to an internationally competitive level of taxation. We are way in front of everybody else. I have a famous table, which is the World Economic Forum’s table, of our competitiveness on ticket taxes and charges and the UK sits right at the very bottom, above Chad who did not produce a return. So we are the bottom of the list.

**Q181 Tracey Crouch:** The international competitive level would be what?

**Nathan Stower:** If you look across Europe, there are five countries with a departure tax. We are the highest. The next highest is Germany and they are at roughly half our levels. I think over the course of a Parliament we should be looking to get to that kind of level. Longer-term, there are only five countries out of 27 in Europe that levies are taxed. We think it is a bad tax overall and it should be gone, but over a realistic timeframe of a Parliament or two Parliaments we should be getting to a level that is much more down to the European average level.

**Q182 Tracey Crouch:** Do you see APD as damaging inbound tourism less than outbound tourism?

**Nathan Stower:** It is the opposite. To a certain extent British people who want to fly have to pay this tax. People coming into this country do not. They can go to France. They can go to Germany. They can go to countries that do not have tax at all. The impact on an individual spending decision will be conversely on an inbound traveller.

**Q183 Tracey Crouch:** We have just taken evidence from witnesses who want to see growth in the UK tourism industry. A cut in APD would benefit other areas of the country and not necessarily benefit the UK tourism industry. Is that the way you see it?
**Sian Foster:** No. The PwC report that was commissioned 18 months or two years ago showed that abolishing APD, so going the whole hog and fully getting rid of APD, which would have the biggest benefit to the UK economy, would increase the number of visitors to the UK to an extent that it would offset damage to the economy of more people travelling overseas.

**Q184 Tracey Crouch:** That is abolishing it in its entirety. That is unlikely to happen, is it?

**Sian Foster:** We think the economics stack up for that.

**Q185 Tracey Crouch:** That is not a fairer tax. That is it going altogether, and that is not what we are talking about.

**Nathan Stower:** That would be putting us among the other 22 countries in Europe who do not have a departure tax.

**Sian Foster:** I am not an economist so I am not going to start slicing up those numbers and exactly how that would translate if you were just to halve it or to make it competitive with Germany, but it is about making the UK competitive and making the UK be seen as an attractive place to visit.

**Q186 Tracey Crouch:** Therefore, you think that would have a positive impact on the wider UK economy?

**Sian Foster:** Yes, absolutely.

**Darren Caplan:** Can I just add a point beyond the effect on consumers? It has an effect on our connectivity as well. Airlines decide where they want to route to. They can either route more frequently or they can route not at all if they think APD or air taxes are too high. Quite a lot of airports have lost routes because of the high levels of APD. Liverpool lost the transatlantic route. They also lost five European and six domestic routes. Bristol lost a US route. AirAsia X pulled out from Manchester and Gatwick. Flybe have struggled with domestic. I know Virgin have campaigned on APD as well. This affects their ability to fly.

**Q187 Tracey Crouch:** Do you think that APD is the reason that Liverpool lost a transatlantic flight to America when Manchester is not too far away? Bristol, likewise, you said lost a route. It could be that another airport, Cardiff for example, is perhaps more competitive on that route. How can you say that it is down to APD when it could just be competitiveness within the airline industry, which is surely something you support?

**Darren Caplan:** I understand the point you are making but if you look at Belfast International, United quite simply said, “We will pull out from Belfast if you do not do something about APD”. The minute that was put to the Chancellor the tax regime in Belfast changed and they were allowed to change their APD rate and United have now kept that route going. The evidence is there.
I want to put a factoid into the debate from one of your previous panellists, Kurt Jansen of UK Tourism Alliance. He came up with this great statistic. In answer to a survey, the average profit per passenger for an airline is $4, which is about £2.65 per passenger. The average passenger pays in APD £27 per flight. The Government is taking 10 times more profit than the airlines. That is going to have an effect on our connectivity.

**Q188 Tracey Crouch:** Your response there citing Belfast International makes Jim’s point earlier about it being a devolved issue and how it can bring benefits. Sian, I think you said that it needs to be a UK-wide issue. It clearly is not if we have one set of rules applied to Belfast International and another set applied to other parts of the UK.

**Sian Foster:** I think it is because it is very easy for people to travel from Belfast to Dublin where they had abolished their air passenger duty, which was an awful lot lower to start with. They saw it as a competitive issue and I think the same would happen with the UK as a whole. You would see issues between regional airports being rendered uncompetitive if different regional APDs were applied. It means that traffic is leaving the UK to fly from overseas airports instead. It is a competitive tax and it does drive consumer behaviour.

**Nathan Stower:** The reason the Belfast example is used is because it is the thing that demonstrates the impact so clearly. There was direct customer traffic going the other way. The other thing that happened is that the Dutch introduced an airline tax and within a year they basically noticed people flying from local German airports, so I think they abolished it after two years. The experience of other countries is there is a direct impact in terms of passenger behaviour and competitiveness.

**Darren Caplan:** I think that is quite important. Under an APD system they raised €300 million. When they got rid of APD they raised €1 billion in Treasury revenue. There was a direct connection between getting rid of the tax in Holland and the benefits that had for the economy afterwards. There are other examples: Denmark, Belgium, Ireland. On the Belfast example, the minute Belfast got their cut Dublin tried to change their APD rate and they have gone down to zero. Why would they do that if they did not think there was an advantage in having low APD rates?

**Q189 Tracey Crouch:** Could I just ask you for your comments on the campaign to abolish APD for children? I do not know who wishes to start.

**Nathan Stower:** I will start, given that we are producing it. Our message is that the overall level of tax is too high and it should come down to internationally competitive levels. We are realistic of what you can get in the short-term, in terms of the economic situation. We looked at some of the particular anomalies and there are a number of anomalies with APD, which is why it is a bad tax. There is the double domestic tax. You pay twice if you fly domestically and not if you fly into Europe or long-haul. There is an impact on people who fly premium economy, who pay the same rates as people who fly in upper class or business class, which we think is an unfair anomaly. There is
also the impact it has on families; particularly if you are travelling as a family of four the impact is higher.

We have costed what it would look like in terms of abolishing APD for children under 12 and we get that cost at roughly £50 million. We see that as a small but helpful step for families who are travelling abroad and to attract families coming into the country, and for the industry. It is a relatively small ask for the Treasury and that is why we are supporting it.

**Q190 Tracey Crouch:** Do all airline operators consider 12 to be the universal age of children? I understand that Ryanair, for example, will not let a passenger travel by themselves under the age of 16.

**Sian Foster:** There is a slight difference between unaccompanied minors policies, which may vary airline by airline, and the under-12 definition, which is an IATA, International Air Transport Association, standard for a child fare. An internationally-recognised standard is under-12s are counted as children when it comes to weights and balances and all sorts of other complex things when it comes to airline fares. Virgin Atlantic offers a discount to under-12s, so it does seem anomalous that they pay the same rate of air passenger duty as their parents.

**Q191 Tracey Crouch:** Not all airlines offer a discount to passengers under the age of 12.

**Nathan Stower:** Different airlines have different policies based on their operating model, but they all have to pass on the taxation charge directly through to the consumer.

**Q192 Tracey Crouch:** If there is success in the campaign to abolish APD for children under the age of 12, do you see individual airline operators perhaps changing some of their discount policies for passengers under 12? Will you keep your discount at Virgin?

**Sian Foster:** I think we will maintain a very competitive fares policy. We carry a lot of children every year to Florida and also into the UK as well, so it would make sense to remain competitive in that market. As I said, it just seems anomalous that children are paying the same rate of APD as adults.

**Q193 Tracey Crouch:** Do you think the unaccompanied minors policy will remain the same, that many will consider 12 too young for an unaccompanied minor?

**Sian Foster:** That is a very separate issue and it is based on research into how you would accompany people and all that kind of stuff. In terms of actual fares, a child is a child.

**Q194 Tracey Crouch:** In terms of tax, a child stops becoming a child over 12.
**Sian Foster**: In terms of air passenger duty, absolutely. That is what we believe because it fits within international standards. It is not just about British carriers having to amend their systems to deal with this. It is about international carriers as well and the vast number of international operators that serve the UK. If we can apply a common standard that all of them recognise then it is going to be a much more straightforward change to implement.

**Nathan Stower**: Yes, we want this to be a simple change that is relatively cost free.

**Sian Foster**: Also that consumers benefit from.

**Q195 Tracey Crouch**: I thought the previous witnesses made a rather compelling case on how to support the UK tourism industry in terms of reducing VAT down to 5%. If I were a Treasury Minister I would see trying to introduce both, cutting VAT for the benefit of the UK tourism industry and reducing APD, as perhaps a cost too far. This is your Dragon’s Den moment. I have one choice whether to cut VAT or reduce duty on APD. Which do I do? One is going to clearly benefit the UK tourism industry and the other is going to benefit UK tourists. What do I do?

**Darren Caplan**: I did laugh when I heard the previous panellist, who I thought was an excellent witness until that moment, but look at what happened this year in March. The Chancellor of the Exchequer gave a straightforward cut to our sector, around £250 million, when he abolished bands C and D and he gave the reason for it. The reason he gave was that we have constraints when linking to emerging markets, so we needed to do something about that and so cutting bands C and D is one of the things you can do. Once you accept the argument that APD is a constraint, not just a constraint in our linking to emerging markets but a constraint to existing markets as well, and having got that cut in APD, they have accepted the benefits of it and we hope that will flow through in the months and years to come. On the child APD campaign, again we think that will stimulate not only more outbound families from the UK going and enjoying their holidays overseas, but it will stimulate the inbound market. People will come to the UK because the cost of coming to the UK comes down.

We have evidence from the Treasury and we have a plan going forward. It does not cost too much, but we can see how that goes. It is going in the right direction and, if you look around the other parts of Europe, most countries have abandoned APD altogether or frozen it or cut it. We are literally the only country going in this direction, so how much do we want to be an outlier? My Dragon’s Den pitch is if you want to be competitive, if you want to attract people to the UK as well as help hardworking families who want to go on their overseas holiday, this is a plan that does not cost too much and can benefit us.

**Nathan Stower**: Quite simply this is a tax on tourism, as the other tax is, but this is also a tax on business travel and on exports, frankly, because when Sian sells a seat on Virgin Atlantic that creates an overseas traveller and that
is an export. My question to the Treasury Minister would be: the German rate for long-haul travel is €42. Ours will be £71 from next year. Are you happy to have an internationally uncompetitive tax rate?

**Q196 Tracey Crouch:** What do you see the loss of APD revenue to the Treasury being in the first year?

**Sian Foster:** Of the child rates?

**Tracey Crouch:** No, overall APD. If we reduced or abolished APD overall, what would that cost the Treasury?

**Nathan Stower:** The PwC report looked at full abolition. This is probably a couple of years ago now, but I believe there was a short-term impact of around £100 million to £200 million. I will write to you with the details. Over a period, through to 2016, there was a net benefit of £3.5 billion.¹

**Sian Foster:** Around that. We can do you a short note.

**Darren Caplan:** The key point is, and you identified exactly the nub of the problem here, over a five-year Parliament we think we can reduce that tax and increase the amount of revenue and increase jobs and all the rest of it. The PwC report shows how you do that, but it does need a Treasury Minister to say, “Well, we might take a bit of a hit in years one and two but by year five you get it back”, but you need that to stimulate the market.

**Q197 Tracey Crouch:** Obviously the Cut Tourism VAT Campaign was very clear that, while they recognise there might be an initial cost to the Treasury, £600 million in the first year, the long-term benefit would be nearly £4 billion.

**Darren Caplan:** Just quickly on this, I think if you look elsewhere in Europe the fact that they have got their revenues back and then some is the evidence. We probably need to provide you with figures of what is going on in other parts of Europe to show, where they have cut it or abolished it, the benefits they have received. That is probably the best way of doing it.

**Nathan Stower:** They have their Deloitte report. We have our PwC report. We will write with the details of that.

**Tracey Crouch:** The battle of the consultancies. I think that is it, Chairman. I think I have asked all my questions.

**Q198 Jim Sheridan:** If I could just follow up. Years one and two you take a hit, but years three, four and five you then get a return. What if that does not work out? What safety nets are there for the Treasury?

**Sian Foster:** I guess, having introduced APD once, they could do it again, but I think they can keep anything under review, just as they always would with a

¹ The witness subsequently corrected this to £0.5 billion.
change of taxation. We have seen the first tentative approach through the rebanding back in March of this year.

**Q199 Jim Sheridan:** You have nothing to lose then. If the Treasury follow your advice and abolish APD and it does not work out, then we will just go back?

**Sian Foster:** I think PwC used——

**Jim Sheridan:** What guarantees are you giving the taxpayer?

**Sian Foster:** PwC use modelling that the Government itself uses, so it used the same approach that the Treasury itself would use to model the impacts of the tax. It is a very detailed piece of analysis and they were very confident that the UK as a whole would more than make up the revenue shortfall and over-compensate in the relatively near future.

**Q200 Jim Sheridan:** What I am saying is there is no safeguard for the taxpayer. If it does not work out, you walk away; no problem. When you are using the comparison for other countries, is it a fair comparison in the sense that APD goes towards free health, free education and welfare benefits? Are you doing a like-for-like comparison to other countries?

**Nathan Stower:** It is a direct comparison of departure taxes. It is true that different countries have different rates of corporation tax and everything else but, if you are a Chinese family sitting in China deciding how to spend your money and deciding where to go, while that might have some impact on how our businesses operate in the country they are looking at their ticket price and APD is a strain on ticket price.

**Q201 Jim Sheridan:** The problem with politicians is they have to look across the spectrum. If you cut APD something else has to give somewhere else, whether it be health, education or whatever it may be. You do not have to worry about that.

**Sian Foster:** But that is the benefit of the PwC analysis demonstrating that that does not have to happen because, through additional spend in terms of people having more disposable income or visitors being attracted to the UK, more people spending money in the UK on other things, you would recoup the taxation revenues elsewhere. The PwC report does not rule that out.

**Darren Caplan:** Your concern is understandable. One of the things we are asking for both as individual organisations and as part of the Fair Tax on Flying, an umbrella organisation campaigning on tax, is for the Government to perhaps review and look at the impact APD is having. We are citing PwC. The Treasury has to satisfy itself what the issues are, and we are confident that, if they use the same modelling, they will come up with similar things that the PwC report has come up with. The Government has nothing to lose. The Treasury has nothing to lose. Do the study and we will see what it shows.

**Jim Sheridan:** It seems like a big gamble to me.
Q202 Conor Burns: Given that you believe this is a major boost to tourism if your proposals were enacted, I presume you have lobbied DCMS Ministers on this?

Sian Foster: We have spoken across Whitehall and Westminster. We have had conversations with a number of different people. It is not just tourism groups that are interested in this. It is business groups as well. I know a freeze in APD is a priority for CIBC because they see the business benefits of that, pending a broader review so that we can properly understand what the impacts could be.

Conor Burns: Our focus today is specifically on the tourism thing.

Sean Foster: Of course.

Q203 Conor Burns: Can you describe to us the reaction of the current Minister for Tourism when you met her?

Sian Foster: I do not want to go into this at this specific meeting. Darren, do you want to?

Darren Caplan: I cannot pick up on the current one. I know that John Penrose was very open.

Conor Burns: He is quite a long way ago.

Darren Caplan: I know. From an AOA perspective we have not had any engagement and we would have tried, but we do most of our—

Q204 Conor Burns: None of you have had the opportunity to meet the current Minister?

Darren Caplan: We have not.

Conor Burns: Have you tried to?

Darren Caplan: We can meet people in the Treasury.

Conor Burns: That is a yes or no answer.

Darren Caplan: We meet with people in DfT. We meet with people in BIS but we have not met with DCMS.

Q205 Conor Burns: Have you tried to meet the current Minister for Tourism?

Nathan Stower: We have just launched the children campaign and we will be trying to meet with the Minister for Tourism.

Conor Burns: That is an answer to a different question.

Nathan Stower: I have not tried to meet with her in the last few months.
Q206 Conor Burns: Have any of you tried?
Sian Foster: Virgin Atlantic has met. I was not at that meeting. It slipped my mind. I apologise.

Q207 Conor Burns: Have any of you tried to meet with her?
Darren Caplan: If we made an approach—

Conor Burns: You would know if you had made an approach or not. Have you made an approach? You have tried to meet her and she has not met you. Is that right?
Darren Caplan: It is possible.

Q208 Conor Burns: The guys before you were quite definitive. They tried to meet her four times and had no success.
Darren Caplan: Usually when a new Minister comes in we approach them.
Conor Burns: Well, she is not a new Minister anymore.
Darren Caplan: But once she had come in we would probably have approached her.
Conor Burns: You have approached her and you have not had a meeting?
Darren Caplan: I would like to confirm that, but I cannot say for certain.
Conor Burns: Come on. It is supposed to be us who dodges the questions, not you guys.
Darren Caplan: I would need to get back to you after the Committee. I am not sure if we made that approach. Normally, we do make an approach to someone when they come into office. I will clarify it.
Conor Burns: I think you probably have.
Sian Foster: As I say, Virgin Atlantic has.

Q209 Conor Burns: Can we have an undertaking that you will write to us with that?
Darren Caplan: Yes.
Nathan Stower: I can give you a clear answer, which is that I joined my job in August and I have not since August tried to meet with the Minister for Tourism. We will be trying to meet the Minister for Tourism.
Q210 Conor Burns: Okay. Can you find out also if your predecessor tried to meet her and had any success? What about meetings with Treasury Ministers? Are the Treasury engaged at all?

Nathan Stower: I am pleased to say we are going in there tomorrow to meet with Treasury.

Chair: Who are you seeing?

Nathan Stower: The Economic Secretary, who has responsibility for Air Passenger Duty.

Darren Caplan: In fairness to the Treasury, they have generally been open to meetings over the years. They have been very good at engaging with all of us.

Q211 Conor Burns: Would you be disappointed that perhaps DCMS are not more receptive to dialogue to champion something you think would be very good for the sector?

Darren Caplan: I am going to find out after this meeting just how receptive they are. In fairness, we need this Committee to do the same as the Transport Select Committee and the DfT, to lobby the Treasury on the issues with APD. Any help you can give us on asking for a review of the tax, asking for a cut in the tax and supporting the child APD campaign would be most welcome.

Sian Foster: It is also considering it in the round as well with visa charges and the accessibility of visas and UK borders and a variety of different issues. When we have these discussions it is not purely about APD. It is about that as part of the border competitiveness piece.

Q212 Tracey Crouch: Do you think that tourism sits within the right department? You all mentioned that you have met with Treasury, the Department for Business and DfT. This is clearly an issue around tourism, but none of you seem to have been able to engage particularly well with the Department for Culture, Media and Sport, where tourism sits at present. Do you think there is an argument for tourism to be moved from DCMS into a different department, probably the Department for Business?

Nathan Stower: From an airline perspective, our experience is that we go to the Treasury on tax, we go to Tourism on certain issues, we go to the Home Office on visas, we talk to the Department for Transport on capacity and we have an Airports Commission as well. A lot of our issues are spread out quite a long way across Whitehall, and the challenge is whether it is moving it into a different department or having structures within Whitehall that mean that it does not move within departments but there is greater co-ordination. I do not know the best answer to that. Sometimes I get a little bit sceptical of moving the same people from there to there and that makes it better. I am not experienced in the civil service, so perhaps former Ministers might have a better view of that than me.
Darren Caplan: There is not a lot of integration, but I went to the DCMS website yesterday and looked at the business plan and hardly any of the issues we are discussing here today are in the business plan. There is a bit about marketing overseas and a bit of the GREAT Britain Campaign. That is important, but if you talk about things like APD, visas and connectivity, I do not see those on the DCMS website. I would argue that we do need better integration. I would say, being perfectly frank, two or three years ago the DCMS would approach us and would say, “We are holding a roundtable. Do you want to come along to it?” That has not happened in the last year or two.

Sian Foster: Could I just come back to an earlier point? Virgin Atlantic has met with DCMS and we meet with DCMS officials quite regularly. I believe they are quite supportive of positive change on APD, so they do understand the issue around APD and our concerns around it. Just reiterating my colleagues’ points, I do not know where tourism best sits but what is important is a joined-up approach across Government, because it is about business, investment and infrastructure, taxation, visas and the attractiveness of the arrivals procedure. So many different things go into making the UK an attractive place to visit that, if it is a priority for Government, it absolutely requires all the different departments to work collectively on it and treat it as a real priority.

Q213 Jim Sheridan: I apologise, I have to leave early, but two very simple questions. First of all, do you know who the Minister for Tourism is?

Darren Caplan: I understand it is Helen Grant.

Jim Sheridan: You understand it is Helen Grant?

Darren Caplan: It was not in her job title initially, was it?

Sian Foster: I have an appalling memory for names, so no.

Nathan Stower: Not as you ask me now. It has gone out of my head.

Q214 Jim Sheridan: This is an X Factor. Two judges said no; one said yes; one said maybe. The second question is more serious. Over the last few years I have had a number of the business community approach me who have tried to use these bonus points both through you and to your members. These bonus points are just a complete waste of time. It is either the school holidays are on or they can get you there but they cannot get you back. There is always an excuse that you cannot get to use these bonus points. The suggestion that they have put to me is: why not scrap these bonus points altogether and just reduce the fares?

Sian Foster: Is that frequent flyer programmes?

Jim Sheridan: Yes, a complete waste of time.

Sian Foster: I am sorry your constituents think that.
Q215 Jim Sheridan: Virgin are not affected, of course. Would it not be more practical, because it is a sham, just to get rid of these bonus points and reduce the prices?

Nathan Stower: My experience working in an airline and the conversations I have with other airlines is that they are incredibly popular with certain customers. I know there are certain experiences when sometimes you cannot fly. I know there are restrictions, but British Airlines and a load of international airlines have frequent flyer programmes. There must be a significant benefit.

Q216 Jim Sheridan: On average, how many seats are reserved for these bonus points on each flight?

Nathan Stower: I could not give you a number on that.

Sian Foster: I can come back to you with a note on how it works for my airline.

Q217 Jim Sheridan: People are saying there is always an excuse that you cannot use them. It is the school holidays. It is whatever may be, “We can get you out but we cannot get you back”.

Sian Foster: Can I come back to you? I can only answer for my airline because it is a competitive issue?

Chair: This has strayed slightly.

Q218 Jim Sheridan: You can Google and find out who the Minister is.

Sian Foster: I will do that.

Chair: I think on that note we should probably draw a line. Thank you very much for coming.