

October 2017

## **The £2.2bn Opportunity for the UK Govt to Cut EU Red Tape**

### **Summary**

- **The UK Govt is required to implement the new EU Package Travel Directive, through a revision of the Package Travel Regulations, by July 2018, just nine months before the UK leaves the EU**
- **While the Regulations will provide important protections for people undertaking package holidays, the poor drafting of the definition of a “Package” means that they impose costly and unnecessary EU red tape on the UK’s domestic tourism industry.**
- **Leaving the EU provides the UK Government with the opportunity to remove this unnecessary red tape by simply inserting a cause in the new regulations to the effect that, when the UK leaves the EU, the definition of a “Package” in the new Regulations must include transport.**
- **Removing this red-tape will benefit consumers by reducing the cost of domestic holidays, while not affecting their rights and protections.**
- **Research by the Tourism Alliance indicates that freeing domestic tourism businesses to provide UK consumers with the Value-Added products want will boost the UK’s domestic tourism industry by £2.2bn per annum and create 40,000 new jobs.**

### **1. The Package Travel Regulations**

The UK Government is required to transpose the new EU Package Travel Directive by 1 January 2018, and have it come into force by 1 July 2018, just nine months before the UK leaves the EU. To do this, BEIS has recently undertaken a public consultation on updating the current Package Travel Regulations (1992) in order to reflect the requirements of the new Directive.

The primary purpose of the Directive, and the Package Travel Regulations (PTR), is to protect consumers who are taken on holiday by tour operators. The legislation provides these consumers with two main protections:

### **1. Repatriation**

Travel agents and tour operators are required to be bonded so that if the company goes bankrupt, customers don't become stranded overseas with no means of returning home.

### **2. Liability**

Travel agents and tour operators are made legally responsible for the satisfactory performance of all aspects of the package they provide their customers so that, if redress is required, the customer does not have to pursue foreign businesses through foreign courts.

These two protections are extremely beneficial to consumers and have facilitated the enormous growth in international tourism between EU member states since 1992. Events such as the recent collapse of Monarch demonstrate that these protections remain as relevant today as they were then.

## **2. The Detrimental Impact of the PTRs on UK Domestic Tourism**

While the PTRs have been hugely beneficial for consumers purchasing Package Travel, they have, at the same time, been detrimental to both the UK domestic tourism industry and to UK consumers wanting to undertake a domestic holiday.

The reason for this is that the definition of a "Package" has been poorly drafted so that it is any two of three elements - "Transport", "Accommodation" and "Other Tourism Service". This means that, rather than just covering people who are being taken away on holiday, the legislation also covers "Value-Added" products (ie., products that combine "accommodation" and "other tourism service").

As a result, if a B&B, guesthouse or hotel in the UK offers a product to their customers that combines, for example, a weekend stay with tickets to a local attraction, a meal in a local pub or an activity such as a round of golf or watercolour lessons, this is deemed to be selling "Package Travel" and the B&B operator is deemed to be a Tour Operator.

This was never the intent or purpose of the Directive and causes two significant problems for the 170,000 micro-businesses and SMEs that comprise the UK domestic tourism industry.

1. It makes the B&B owner legally responsible for anything that happens to the customer while at the attraction or undertaking the activity. This is an unacceptable level of risk for small businesses.
2. It requires the B&B owner to be bonded, which is expensive, or to put customers' funds into a trust account, which is detrimental to the cashflow of small businesses.

The impact that these requirements have on the domestic tourism industry can be seen in the low sales of packages in the UK. The 2014 GB Tourism Survey notes that domestic holiday packages only account for 3.9% of the domestic tourism market compared to around 40% of the outbound market.

The low availability of domestic packages for customers was highlighted in the UK Government's 2011 Tourism Policy in which DCMS committed to forming a taskforce to examine the reasons for the low availability of packages and consider what structural changes might be made to increase their availability and provide customers with increased value.

This taskforce concluded that the reason for the very low take-up of package holidays in the UK was due to two factors: that over 80% of domestic tourists use their own car to take a holiday, thereby limiting the opportunity for tour operators to provide travel-inclusive packages, and that the PTRs restricted the number of Value-Added products being offered.

Reflecting these findings, when the new Package Travel Directive was being developed in Brussels, the UK Government's position was that the definition of a package had to include transport. This position was specifically taken in order to support domestic tourism businesses by excluding Value-Added products from the scope of the legislation.

### **3. The Benefits of Removing Value-Added Products from the PTRs**

The Tourism Alliance has recently undertaken a survey on the PTRs across a broad range of tourism businesses, from accommodation providers, attractions, Destination Management Organisations, restaurants and pubs. The results of the survey support the previous findings that the Package Travel Regulations have a detrimental impact on domestic tourism in the UK.

The main findings of the survey are:

- 47% of tourism businesses stated that they never offered Packaged or Value-Added products to their customers.
- 61% of the respondents stated that complying with the Package Travel Regulations was the reason why they did not sell packaged products
- 74% of business said that they either "definitely would" (36%) or "probably would" (38%) supply Value-Added products to customers if these products were removed from the scope of the Package Travel Regulations. Only 2% said that they "definitely wouldn't"
- On average, businesses thought that being able to provide Value-Added products would boost their income by 9%, with 15% thinking that it would increase their revenue by over 20%

The survey also found considerable agreement among the respondents that improving the ability to provide customers with Value-Added products would generate a range of other benefits. These findings include:

- 91% of businesses agreed that providing Value-Added products would grow the domestic tourism market as a whole, rather than just redistributing existing revenue

- 59% of businesses agreed that providing Value-Added products would increase competition between businesses, thus providing benefits to consumers (only 7% disagreed).
- 82% of businesses agreed that providing Value-Added products would make the UK a more attractive destination for overseas visitors
- 74% of businesses agreed that providing Value-Added products would increase visitor satisfaction (only 4% disagreed)
- 68% of businesses agreed that providing Value-Added products would boost the productivity of the UK tourism industry
- 66% of businesses agreed that providing Value-Added products would improve seasonal spread

### **3.1 Calculating the Benefits**

Businesses surveyed estimated that removing Value-Added products from the scope of the Package Travel Regulations would, on average, increase their revenue by 9%.

The UK domestic tourism generates £24.8bn per annum. A 9% increase would therefore equate to an additional £2.2bn per annum in domestic tourism expenditure, which would be relatively evenly spread throughout all regions of the country.

In 2013, VisitBritain commissioned Deloitte and Oxford Economics to undertake research on the economic contribution of tourism to the UK economy. The resultant report, *Tourism: Jobs and Growth*, found that an additional FTE job in the tourism sector was created for every £54,000 increase in expenditure by visitors.

Using this Government-accepted figure indicates that the £2.2bn increase in domestic tourism expenditure would create an additional 40,000 jobs in the domestic tourism sector.

### **3.2 Benefits to Consumers**

The survey of tourism businesses conducted by the Tourism Alliance highlights the benefits to consumers of removing Value-Added products from the scope of the PTRs. Namely, there would be an increase in the number and variety of these products available to consumers, which would increase competition in the market and lower the price of domestic holidays.

More importantly, however, these benefits would come at no cost to the customer in terms of consumer protection.

As stated above, the two main consumer benefits of the PTRs are that they ensure that visitors are not stranded at a destination with no way of getting home and to ensure that, if legal redress was required, the customer is able to pursue this in the country that they purchased the package.

However, for Value-Added products, neither of these two protections are needed. As Value-Added products do not include transport, if there is any problem with the performance of the product, the transport arrangements remain unaffected and the customer is still able to return home. As such, “repatriation” is not an issue.

Second, if Value-Added products are removed from the scope of the PTRs, under existing UK consumer law each party to the product becomes separately liable for the performance of their component of the product. So, using the previous example of a Value-Added product, the B&B owner would remain liable for the performance of

the accommodation, while the attraction operator would be liable for the performance of the attraction.

That both operators are separately liable is common sense and makes no difference to the customer as both operators are known to the customer and are both located in the UK.

During the development of the Package Travel Directive, the Tourism Alliance met with Which? to discuss the impact on consumers of removing Value-Added products from the scope of the Directive. At these meetings it was agreed that there was no detrimental impact on consumer protections and we have no reason to believe that Which? has changed its position on this issue.

#### **4. The Opportunity**

The UK leaving the EU provides the UK Government with an opportunity to free the UK domestic tourism industry of this costly and unnecessary EU red-tape, thereby providing a £2.2bn boost for UK businesses and creating 40,000 new jobs.

This can easily be accomplished by inserting a clause in the new PTRs to the effect that, when the UK leaves the EU, the definition of a Package under the regulations will change so that it must include transport.

This will free the domestic tourism industry to provide the products and savings that domestic consumers want while, at the same time, continuing and strengthening protection for UK consumers undertaking holidays in Europe and retaining reciprocal arrangements for EU visitors holidaying in the UK.

As the UK Government's position during the development of the Package Travel Directive was that the definition of a package had to include transport, and that this position was taken in order to support the UK's domestic tourism businesses, we would expect that the Government would now take this opportunity to implement the policy it had previously agreed with the industry.

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## Appendix 1: The UK Tourism Industry

Tourism is one of the UK's largest and best performing industries. It is made up of over 250,000 businesses which provide jobs for 3.1m people (over 9.6% of the UK workforce) and contribute £127bn to the UK economy (7.1% of GDP). The tourism industry's value to the UK economy has been demonstrated by ONS research which has found that, since 2009, the UK tourism industry has provided economic growth at a faster rate than most other industries and provided additional employment at almost twice the rate of other industries.

The overriding characteristic of the domestic tourism industry is that it is largely composed of very small businesses. Work by the UK Commission for Employment and Skills shows that, of the 180,000 domestic tourism businesses in the UK, over 70% are micro-businesses and a further 25% are SMEs.

The revenue and employment generated by these businesses has a number of important economic features. These include:

- **Regional Spread**  
Unlike other industries, the revenue and jobs created through tourism are spread widely across the country with all UK regions having at least 90,000 people working in the tourism industry.
- **Transfer of Wealth**  
Tourism is the largest private sector source of wealth transfer between urban and rural/seaside areas. Last year urban visitors spent £25bn in rural and seaside destinations, supporting over 460,000 fulltime jobs in these areas.
- **Youth Employment**  
Tourism is a major source of employment for minority groups and provides an important first step on the career ladder for young people. Approximately 44% of the people employed in the tourism industry are aged under 30 compared to around 24% across other industries

## **Appendix 2: Tourism Alliance Members**

Airlines UK  
Airport Operators Association  
ALMR  
ALVA  
ANTOR  
Association of Group Travel Organisers  
ASAP  
ATHE  
BACTA  
BALPPA  
Bed & Breakfast Association  
British Beer & Pub Association  
British Destinations  
British Educational Travel Association  
British Holiday & Home Parks Association  
British Marine Federation  
Business Visits & Events Partnership  
Camping & Caravanning Club  
Caravan and Motorhome Club  
Churches Visitor and Tourism Association  
Confederation of Passenger Transport  
Country Land and Business Association  
Cumbria Tourism  
EASCO  
English UK  
European Holiday Home Association  
European Tour Operators Association  
Family Holiday Association  
Farm Stay UK  
Go New Forest  
Group Travel Business Forum  
Heritage Railway Association  
Historic Houses Association  
Institute of Tourist Guiding  
Liverpool City Region LEP  
Marketing Manchester  
National Caravan Council  
National Coastal Tourism Academy  
National Trust  
Outdoor Industries Association  
Premier Cottages  
Resort Development Organisation  
South West Tourism Alliance  
The Tourism Society  
Tourism For All  
Tourism Management Institute  
Tourism South East  
UKInbound  
Visit Brighton  
Visit Cornwall  
Visit Kent

### **Observers**

Local Government Association  
VisitBritain  
VisitEngland