



Northern Ireland Affairs Committee

Oral evidence: Promoting the tourism industry in Northern Ireland through the tax system, HC 577 Wednesday 25 November 2015

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Written evidence from witnesses:

- [Campaign to Cut Tourism VAT](#)

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Members present: Laurence Robertson (Chair); Mr David Anderson; Oliver Colvile; Mr Nigel Evans; Lady Hermon; Danny Kinahan; Dr Alasdair McDonnell; Nigel Mills; Ian Paisley; Gavin Robinson

Questions 1-87

Examination of Witnesses

Witnesses: **Professor Adam Blake**, Economist, **David Bridgford**, Campaign Ambassador, and **Graham Wason**, Economic Advisor, Campaign to Cut Tourism VAT.

Q1 Chair: Thank you very much for joining us. This is our first evidence session of this inquiry into promoting the tourism industry through the tax system, so we are grateful to you for joining us, and thank you also for your written evidence. We understand you would like to make an opening statement just to kick us off and then we can get into questions.

Graham Wason: Many thanks for inviting us to come and provide evidence to your Committee. We are very pleased to do so. We believe this is a completely compelling argument that you are debating and exploring and discussing. Twenty-five out of 28 of the EU member states choose to take advantage of one of the existing regulations that the EU imposes in terms of how the VAT system is operated, which is that a limited number of sectors are allowed to have a reduced rate of VAT, and tourism is one of those.

Tourism is selected because it is internationally competitive. A lower tax rate makes industry more competitive, which helps Europe as a whole to bring in more tourists from Asia and from America, and because it has advantages it is also very good for employment of people in all sectors. Due to the benefits of a competitive tourism industry, 25 out of 28 countries choose to exercise a reduced rate of VAT for tourism. The average in Europe is just 10.8% for visitor accommodation.

Only three countries do not take advantage of this rule, and as long as we are in the EU it seems to us silly that we are not taking advantage of existing rules so we are putting

ourselves at a competitive disadvantage. I will not go into too much detail, but I am happy to explain if asked.

Q2 Chair: Thank you very much. The understanding we have of the VAT rules is that we would have to reduce it for the whole of the UK; we could not under EU law reduce it just for Northern Ireland. If it dropped to the European equivalent, or perhaps the Irish equivalent, what assessment have you made of how many people that would draw to Northern Ireland? It might draw more people to the UK generally, but how would we get them across to Northern Ireland on that basis?

David Bridgford: Our assessment, and the request of the Cut Tourism VAT campaign, is a reduction to 5%. The reason we are asking for 5% is that we believe that, while the UK has some great tourism assets, it puts itself at a price disadvantage, and 5% would give the UK an advantage over its European competitors. We think that there are significant benefits both in terms of job creation and stimulation of demand for tourism products. The data that we have got suggests something like 2,600 jobs being created in Northern Ireland out of about 80,000 created across the whole of the UK.

Q3 Chair: If people get to the UK and then they look across and they think, “Well, we will go to the island of Ireland,” have you any evidence to suggest that they are drawn towards the Republic rather than Northern Ireland because of the different rates?

Graham Wason: There is some evidence, but tourism is not just about drawing people from the capital city. There are so many different aspects to tourism. One is, are the international visitors coming in? But there is also domestic tourism, which is vitally important. Ireland saw the light, as it were, in the late 1980s, and first reduced VAT for tourism. They further reduced it at the time of economic crisis in 2011, from 13.5% as it was then down to 9%. In the year following there was a 21% increase in the number of tourists from Northern Ireland moving across the border to the Republic. That seems to us pretty compelling evidence of the effect of a change in VAT rates, and that is only 4.5 percentage points.

The UK has said that it does not want to make the VAT system any more complicated. The country is allowed to have a second reduced rate if it wants to, but that would imply a small degree of extra complexity. But the UK has an existing rate of 5%. We think there is a compelling argument to say, “Put tourism on that 5% rate.” That would make us then more competitive than the rest of Europe and we would begin to claw back some of the disadvantage we have had for the last 20 years.

Q4 Chair: When you say tourism, what falls within that category?

Graham Wason: Tourism is very broad and touches all of the parts that other sectors of the economy do not reach, to misquote a famous Danish beer advert. We have analysed very carefully all the sectors of tourism and we have come out strongly in favour of initially choosing to work on visitor accommodation, which includes hotels, camping sites, caravan parks, self-catering—all the places that visitors stay—together with visitor attractions, theme parks, zoos and those kinds of facilities. They are the ones that have most impact in terms of attracting tourists. Those are the two sectors of tourism where the

greatest disparity with the average in the EU presently exists. They are also the two sectors where you have the greatest export impact, the greatest export benefit, by taking this measure compared with other sectors of tourism.

David Bridgford: The reason for selecting that is when somebody is thinking about where to take their holiday, they are thinking about where they want to go, where they are going to stay, what they are going to do, and the internet makes price comparison very easy. Those activities that are most immediately at front of mind when people are booking are the things that we think ought to be selected for a reduction.

Q5 Lady Hermon: It is very nice to see you here bright and breezy, early in the morning; it is very good of you. Do you mind if I ask you individually how recently you have visited Northern Ireland?

Professor Blake: I've never visited Northern Ireland.

Lady Hermon: You have never been to Northern Ireland. That is a great shame.

Ian Paisley: It is too expensive.

Professor Blake: To introduce myself, I am an economics professor at a university and I have done various work on taxation in the UK, which has included work on cutting tourism VAT.

Q6 Lady Hermon: So, you work alongside this particular body, this campaign?

Professor Blake: Yes, but I am independent of it.

Q7 Lady Hermon: You are not paid by the organisation.

Professor Blake: No, so I apologise if I say anything that is not part of the campaign.

Q8 Lady Hermon: No, it is very interesting that you say something independently from the others; that makes the Committee session much more lively.

Graham Wason: In my case it has been a couple of years. I have been quite a lot of times, always connected with tourism business, tourism development. I previously used to undertake feasibility studies for new hotels and so on, but I do confess that I have never yet been as a tourist. I look forward to doing so and hope I will be one of the earliest visitors when the rate of VAT makes it affordable for me.

David Bridgford: I am afraid to say I have never been to Northern Ireland.

Q9 Lady Hermon: That is two out of three; that is a pity.

David Bridgford: Our business does not operate in Northern Ireland at the moment.

Q10 Lady Hermon: Your business is?

David Bridgford: It is Merlin Entertainments, so we own visitor attractions globally. We have an aquarium in Bray in the Republic.

Q11 Lady Hermon: Which is not Northern Ireland.

David Bridgford: Which is not Northern Ireland, no.

Q12 Lady Hermon: Exactly—Northern Ireland is part of the UK, so having a tourist attraction in the Republic of Ireland is not really relevant to this inquiry.

David Bridgford: It is relevant in so far as the performance of that attraction since the rate was changed in the Republic has improved; that is the only reason for mentioning it.

Q13 Lady Hermon: Yes. How is the campaign that the two of you are involved in, and Professor Blake is not involved in, funded?

David Bridgford: The campaign is funded through a number of different organisations: Merlin Entertainments, Bourne Leisure, the British Hospitality Association. We represent about 3,500 other organisations who are supporters of it, but the bulk of the funding comes from those first three that I have mentioned.

Q14 Lady Hermon: I think you mentioned in your evidence earlier that the organisation campaigns for a cut in VAT for hotel accommodation and cultural attractions, but not for restaurants, pubs or clubs.

David Bridgford: Correct. We have no funding from the British Beer and Pub Association, for example.

Q15 Lady Hermon: Right. We had some interesting lines—is it Mr Wason?

Graham Wason: Wason—Mason with the M upside down.

Lady Hermon: I will probably end up calling you Graham, if you don't mind—it saves embarrassment all round. There is a line that you began with, which I did take down at the time, "As long as we are in the EU". Are you saying that because you wish we were not in the EU, or does the Campaign Group wish—

Chair: Perhaps we will not get too deep into that subject.

Lady Hermon: No, no—we want to know. Is the campaign group—you have just explained its funding and background—in favour of the UK remaining within the EU, or do you see this as such a huge issue that the campaign group would wish to be out of the EU?

Graham Wason: We are absolutely not saying that, and I would stress that the campaign does not have a position on whether we should be in or out. We represent dozens of thousands of different businesses and they will have very disparate views of whether it is

better to be in or out. All I am saying is that it seems to us to be crazy that we are not taking advantage of the existing rules that 25 out of 28 of the member states are taking advantage of, being in the EU as we are. That is the point.

Q16 Lady Hermon: Presumably there is a bulk of correspondence between the organisation and the Treasury, so what justification has the Treasury offered for being one of the three countries in the EU that has not reduced its VAT rate?

Graham Wason: We do not believe we have been given any robust reasons why not. Initially many, I would say rather spurious things were suggested to us.

Q17 Lady Hermon: Such as?

Graham Wason: Such as a report quoted to us that in France, where the rate of VAT was reduced on restaurants, there had been very limited benefits. That was based on a report issued by a highly partisan member of the French Senate, whereas all of the statistics from the equivalent of the Office for National Statistics in France demonstrate that 100,000 jobs have been created in the restaurant sector and many businesses have been saved from closure. There has been a very significant drop in the shadow economy, that is, the shadow economy of businesses choosing to remain below the VAT threshold or being outside VAT for other more dubious reasons. The benefits are highly compelling.

There are also benefits one can look at by looking at the other 25 countries that have reduced VAT. We have submitted evidence to the Treasury that shows all of these examples and particularly what has happened in Ireland, where there is a land border. It is the only part of the UK where there is a land border, so you can see pretty clearly what happens when there is a change and a disparity in VAT rate. The Treasury has not engaged on any of those critical issues.

Q18 Lady Hermon: When does your latest correspondence date back to with the Treasury?

Graham Wason: Just before the election. I would say there has been movement; we have had dialogue of a kind with the Treasury over three to four years and there has definitely been movement. Their first response to us was 20 pages of reasons why this would not work; they are down to one or two arguments that are far more political than economic.

Q19 Lady Hermon: Such as? We really want to hear what the justification has been by the Treasury not to move on this.

Graham Wason: The Treasury's justifications have pretty much fallen away. They have conceded that the figures they have put to us—they talked about a cost to the Government of £2.7 billion—are based on things that we are not asking for. For example, they have included VAT on theatres, which we do not include. They have also made a miscalculation about the number of business visitors who reclaim their VAT, so that is not income that is lost to the Treasury. They have conceded that figure is not correct; they have not met our figure of what the year one costs to the Treasury would be.

They hinted to us—they have not put it in writing—at our last meeting just before the election that if there were political will to do this measure, they would not stand in the way in terms of economic arguments. The last communication we did get in writing from the then Exchequer Secretary, David Gauke, was that his door to his officials remains open for continued dialogue. It has moved towards a more constructive position than it was a few years ago.

Q20 Lady Hermon: Would you be able to share that correspondence with the Committee?

Graham Wason: Absolutely.

Q21 Lady Hermon: Finally at this stage, because I know colleagues want to ask their own questions, when the Chairman asked about the EU directives that govern the imposition of VAT, it was suggested that Northern Ireland could not have a different rate of VAT. That has been the consistent policy. However, as I am sure you will know, the Government has very recently agreed that corporation tax should be different in Northern Ireland. What legal basis is there for saying that Northern Ireland could not have a lower rate of VAT for the tourism sector compared with the rest of the UK? Professor Blake, you would like to take that?

Professor Blake: This is one for the lawyers, I think.

Lady Hermon: We are looking to you.

Professor Blake: The basis of it is that there are pretty strict rules for VAT in the European Union, and each member state has one headline rate and one or two reduced rates, and those rates have to apply throughout the member states at the same rate. As far as I can see it does not specifically say that the goods and services on which the reduced rates apply have to be exactly the same in parts of the member states, but that is the way that European Union lawyers seem to interpret it.

Graham Wason: The key part there is that VAT is totally regulated by the EU, whereas corporation tax is not; that is much more devolved to member states. The rules are very clear, as Adam says: one headline rate, which has to be between 15% and 25%. You are allowed to have up to two reduced rates, which must be between 5% and 15%, but part of the problem of the VAT system, as a lot of things with the EU, is it has been put together and evolved in a mishmash way over many years, so there are all sorts of anomalies. One anomaly is that, while it is clear that the rules permit one region of one country, such as Northern Ireland or Bavaria in Germany, to have a reduced rate, it has got to be the same nationally.

Yet within the UK the Isle of Man has fallen outside that, and it is extraordinary that in the 1990s the then Conservative Government accepted an argument put forward by the Isle of Man Government that reduced VAT would enable its hotel sector to compete with European destinations, particularly the Channel Islands. Since that time the Isle of Man has had VAT on hotels at 5%.

Lady Hermon: Yes. Thank you so much.

Chair: The Isle of Man is a separate jurisdiction, though, and is not in the EU. It is something we can look more closely into. As with all these things, there is often a way around them, but it is something we can look closely into in the future.

Q22 Danny Kinahan: Thank you very much for the evidence so far. I want to play slightly devil's advocate, because I was on the Department of Enterprise, Trade and Investment Committee at Stormont, and I wonder how you get a clear vision on the effect of no cut in VAT when we have not got a tourism strategy, and at the same time we have most effort going into big events, with a dribble-down effect. At the same time you have got Ireland, not just in the tourism world, being able to do a whole lot of other things that attract people to go to Ireland first. How do you get a clear picture of what is really the effect of VAT rather than sitting here thinking that it is about that, because it does matter?

Professor Blake: I have not, and I do not think the campaign has, done any specific modelling on the VAT rates for hospitality in Northern Ireland separate to the work we have done for the UK as a whole. I think that is correct.

Graham Wason: That is correct.

Professor Blake: The underlying reasons why the different economic models that we have been using are showing that cutting VAT on accommodation services is beneficial are there: it is the price differentials that exist for Northern Ireland residents when they are looking at where to go on holiday—the price differentials between Northern Ireland and the Republic of Ireland in particular, but also other destinations around Europe. That works in the same way that it does when we look at the UK as a whole, but you could perhaps say that because it shares the land border, that effect is going to be even more prevalent for Northern Ireland than for the UK as a whole. In terms of attracting more foreign tourists coming from Northern Ireland, that effect will be there as well. The share of foreign tourists going to Northern Ireland is smaller than it is for London or the average for the rest of the UK.

David Bridgford: In a way you have to be looking at all these activities. The big sporting events create a halo effect and a moment in the sun; they do not last, but they present an opportunity to present the tourism assets of Northern Ireland to a wider audience than you would normally get. We have to use those as publicity, but the long-term attractiveness or relative attractiveness of Northern Ireland as a tourist destination will be compared with other destinations, north and south, elsewhere in Europe, elsewhere in the UK.

The data since 2011, which indicates growing numbers of residents of the north travelling to the south to take holidays, is pretty strong. Even in the wider context during the course of this year, the movement in sterling has seen quite an impact in the number of domestic UK visitors travelling overseas and some growth in the international business community, but a reduction in that international tourist market coming in. The change in exchange rates this year has made the UK tourism product even more expensive, and so that is choking off demand. Our argument at the heart is that, while the Government can do little about the foreign exchange rate, they can do something about the VAT rate.

Danny Kinahan: I fully support you on trying to cut the rate. I just wanted to ask the question that way.

Q23 Mr Anderson: What real evidence do you have that it is costs that are stopping people travelling or encouraging people to go elsewhere?

Graham Wason: Cost is one factor and tourism is highly complex; the reasons that people travel—for business, for leisure, to visit family—are many, and many factors affect the choice of destination, so cost is only one of a very large number. As tourism is such a large phenomenon and so many people are travelling, you do not need to change one factor too much to begin to get an impact. A reduction in price will have an impact; it might not counter, for example, a negative impact of a sudden large swing in exchange rates, as David is saying, or a terrible summer. However cheap the price is, it is going to have a limited impact in how it counters a very bad summer, but over a period of time price does play a factor.

We have mentioned in our evidence that, according to the World Economic Forum, which measures the international competitiveness of travel and tourism, they put the UK at 140th out of 141 countries as being one of the least competitive on price. There is an international organisation recognising not price alone but a very important component of the tourism mix.

David Bridgford: We have a lot of economic studies indicating that tourism is highly price-sensitive.

Professor Blake: This is one point that we have had raised before with examples such as London being an expensive place to visit, but it still gets a huge amount of visitors, so obviously it is not about price. The other point is there are lots of reasons why people might choose to come to London, and there is a wealth of evidence going back over 50 years in academic peer-reviewed journals that shows that in different places, at different times, tourism arrivals and their spending patterns do respond to prices. When prices go up, you get fewer tourists; when prices come down, you get more tourists. Possibly over 1,000 academic journal articles have examined that, and I do not think there is a single one of them that has shown zero effect. They have different arguments about the scale of the effect, but there are none that show price does not have an effect.

Q24 Mr Anderson: You mentioned about the movement of people going from the north to the south in Ireland; as somebody who travels a lot in both places, I would suggest that the price is very little different. It certainly is not 15% cheaper to have a week in the Republic than what it is in the north. If anything it is probably more expensive.

Graham Wason: My response to that would be that if you asked me as an individual whether I would consider going to Northern Ireland if the price was X or if the price was Y, I might well say, “Look, I really want to go to Northern Ireland: I don’t care; I can afford it; I will go.” On an individual level price often has a very small or even no effect, and clearly for a lot of business visitors also they need to go and do their business, so whatever the price they will go. If you take 1,000 people resident in Northern Ireland, and do not ask them about the price, because they will not just look at the price but that will be their final determinant, those 1,000 people might look at whatever the proposition is—to stay at home or to go south across the border—and then you might find that there is 8% change of those that will be affected by even a small differential in price.

David Bridgford: The evidence of the study done by the Irish Government to look at the impact of the VAT concluded that it had been beneficial, and they decided to extend the rate, because it was initially introduced at a temporary rate. It may be that the reason it was beneficial—there are a number of reasons why—is that owners of hotel accommodation may have used some of that benefit to invest in the quality of their offering. Giving them the ability to either reduce price or invest in their product gives them an ability to offer a more competitive product.

Q25 Mr Anderson: May I come back to the discussion you have had with the Treasury? Forget the possible benefits of reducing VAT. How much would the Exchequer lose by reducing VAT by 15% both in the UK and in the north of Ireland?

Graham Wason: We have done two sets of modelling; we have done one set of modelling with our own model, which we call in economic jargon a dynamic partial equilibrium model. It is a model that we first developed more than 20 years ago when the British Tourist Authority first began to look at this disparity in European VAT rates. It has been developed over those 20 years; it has become a very sophisticated model. It looks at impacts on employment and the shadow economy, and so on. That model shows a direct loss of VAT to the Treasury of about £1.5 billion, compared with what the Treasury has been saying is a cost of £2.7 billion.

Q26 Mr Anderson: Is that for the UK?

Graham Wason: That is for the United Kingdom—for the country. However, the loss is never that much. Even if there is no change whatsoever in the economy, where does that money go? If it ended up in the pockets of the business people—which would not happen, because the prices will go down—the Government would get some money back in corporation tax and dividends, and so on. The cost is never the direct loss of VAT. We think, making very reasonable and plausible assumptions—quite conservative assumptions—that the net cost in year one will be between £0.5 billion and £0.75 billion, the difference between that figure and the £1.5 billion being what the Government gets back in increased business, because prices are lower and there is increased employment and investment, etc.

However, we have also been invited, I think without precedent, to have access to the Treasury's own computable general equilibrium model. That is the work that, on our behalf, using the Government's model, Professor Blake carried out. That brings slightly different results, overall showing a similar kind of benefit. Adam, perhaps you would like to—

Professor Blake: It is a different type of model that is built on some different assumptions, but they are the kinds of assumptions that the Treasury is using for its own tax policy analysis, and the results for that in terms of the net gains for the Exchequer are that the tourism VAT cut would have some modest gains for the Treasury in the first three or four years, and from then on would have some cost to the Government, always being less than £1 billion per year. It went down to about £0.8 billion after about 10 years, the timespan we were looking at.

Using that model it shows that overall, over a timespan of about 10 to 15 years, there will be a cost to the Treasury; we will have reduced tax revenues from reducing a tax, and that is almost built into that kind of model. It is always going to happen. We have, however, compared it with other types of tax simulations that we can run with this type of model, such as cuts to corporation tax, cuts to national insurance contributions, cuts to the headline VAT rate, and in all those cases the cut to tourism VAT rates performed substantially better. If we compare the taxes in terms of their cost to the Exchequer and their gains to GDP, and that ratio of the cost to benefits, it came out substantially better than any of those other tax cuts. It was around three times the benefits of cuts to corporation tax or the headline VAT rate.

Q27 Mr Anderson: Mr Wason, you calculated about £1.5 billion.

Graham Wason: That is direct costs.

Q28 Mr Anderson: Unless I am being really stupid, and it would not be the first time, does that mean that VAT on tourism in this country delivers to the Exchequer £10 billion a year?

Graham Wason: VAT on tourism delivers more than that, because we are asking for VAT to be reduced on only part of the sector, so there are other parts that would be unaffected.

Q29 Mr Anderson: On the part of the sector that you want it reduced, you reckon it is about £10 billion?

Graham Wason: Yes, roughly so.

Q30 Mr Anderson: Well, 15% is going to give you £1.5 billion. That seems a low amount of money.

Graham Wason: It is more actually, because you have to make adjustments as you go through the figures. For example, you have to add business visitors back. We have taken out food and beverage income from hotel income, because we are not asking for VAT to be reduced on food and beverages, so that has to be added back. So it is actually not 15%; it is a lower percentage.

If I may, Mr Chairman, I will add one thing to that, coming back to the difference between the two models. The Treasury model, which Adam Blake has worked with, concludes that this could be at or close to fiscally neutral; our model shows that it is going to be highly beneficial to the Treasury. There is this loss, which we think will occur for one year. In the second year, that loss will be wiped out. It will be fiscally neutral at the end of the second year, and from then on the Treasury will gain. We make that conclusion for a number of reasons. One is that we have looked at all of these EU countries and we see that other countries have been getting ongoing fiscal benefits.

The other reason is because the Government's model is a very static one that assumes that there is a change caused by the VAT and that is it. You get one big hit in one year, effectively, whereas our model assumes that the industry is dynamic. If you reduce VAT,

prices will go down and demand will go up. Demand going up will lead to greater employment and greater investment. That, in turn, will lead to improved product and improved service. The year after, you will get even more visitors coming. It sets off a virtuous circle of growth. We believe that will happen, because we have seen it in other countries.

Q31 Chair: Is it difficult for you to assess the full impact of the reduction? For example, some people might go to Dublin. Let's say they stay overnight. That is fairly easy to assess and record: they have stayed in a hotel. Then they go out to a restaurant, a pub or wherever else. You cannot really measure that, can you? That is a benefit, but it cannot be measured, can it?

Graham Wason: Again, as Adam talks about the body of academic evidence, there is a great body of academic evidence that has tried to look at the so-called multiplier effect that tourism activity generates for the rest of the economy. Tourism tends to have a very high multiplier compared with a car manufacturer, for example, because people who are visitors, as you say, go out to local restaurants and local attractions. They buy in local shops and they travel on local transport, and so on.

The multiplier tends to come out, looking at all of these studies that are done, on average that an extra 70p is spent in the local economy for every £1 that is spent in the direct tourism sector.

Q32 Ian Paisley: First of all, thank you. It has been a very informative session so far, and we appreciate your expertise on it. Could I ask you, just for the record, who the other two EU countries are who do not avail of this benefit?

Graham Wason: Denmark is the only one of the 28 countries that has no reduced rates of VAT. They have just chosen to have a standard rate on absolutely everything, which is why Denmark is a very expensive country and it does not have a very successful tourism industry.

The other country is Slovakia. Slovakia used to have reduced VAT on tourism and was effectively forced to scrap that and put tourism on to the standard rate as part of an agreement for funding from the International Monetary Fund.

Q33 Ian Paisley: Would you know what their GDP contribution from tourism is?

Graham Wason: No, I don't know.

Q34 Ian Paisley: I imagine it is quite low, from what you are saying.

Graham Wason: They will be lower than the UK. Slovakia—I don't know. Denmark's, I can say pretty confidently, is quite low; Slovakia I am less sure about.

Q35 Ian Paisley: We really are in a peculiar situation where we have a very high-tourism economy and yet we have a tax regime that equates with those who are not really tourism-tier countries. Is that fair to say?

Professor Blake: Yes, it is.

David Bridgford: The data in Northern Ireland suggests that about 5% of the economy is from tourism. For the whole of the UK it is about 9% to 9.5%. Again, in the Republic it is about 9% to 9.5%. In relative terms, Northern Ireland could be better.

Graham Wason: Because of that, if I could say something, the potential for Northern Ireland from this measure is greater than any other part of the UK. Because tourism is already so comparatively underdeveloped in the Province and it is the only part of the UK that shares this land border, there is the potential for really strong tourism growth in the Province.

Q36 Ian Paisley: You produced statistics from the World Economic Forum that show we are ranked 140th in lack of competitiveness when it comes to tourism. On the other end of the scale, Swaziland and Iran were first and second place, and Ireland was 79th. Do you want to comment on those stats?

Lady Hermon: Particularly Iran.

Professor Blake: This is something compiled by the World Economic Forum. They compile it in a certain way. The way in which they do that is all described on the website where they have the travel and tourism competitiveness report. They take various indicators that feed into each of their indices, one of which is the price competitiveness index, which we do particularly badly on.

They are looking at what the levels of taxes are and what they find hotel room prices are. They do comparisons between countries and come up with the UK as being the second most expensive in that sense.

Q37 Ian Paisley: You mentioned in your earlier submission that Northern Ireland could get about 2,600 jobs if there were to be this reduction. Have you been able to do any work on the regional spread of where those jobs would be located?

Graham Wason: To clarify, that figure of 2,600 is not based on a detailed analysis of coming to Northern Ireland and undertaking a specific study. It is done on a very simplistic measure, which looks at the overall impact for the whole of the UK and then apportions that according to the current distribution of hospitality and tourism, in accordance with what currently exists. It does not show the potential of one region. We have that analysis by every constituency level throughout the country, but it is an arithmetical analysis.

Of course there will be winners and losers. Some regions will gain more than others. My view is that Northern Ireland has the potential to gain well above average in terms of the UK, but we have not done any analysis to underpin that belief.

Q38 Ian Paisley: That is a scenario we could perhaps explore further. You have been very clear that your proposal is for accommodation and visitor attractions, and not for food and drink. Why would you not go to the next step?

Graham Wason: We have modelled that, and we have looked in detail at other sectors of the tourism industry, particularly meals taken away from home, in restaurants and pubs. There are, we believe, strong arguments for saying it should be on that sector also. We were talking about whether the direct loss to the Treasury would be £1.5 billion or £0.75 billion on accommodation and attractions, but if you include restaurants the direct VAT loss is far higher. They claim £9 billion to £10 billion. Again, we think that is a spurious figure, but I do not currently know what a more accurate figure is. Clearly, however, there would be a far higher direct loss. In the current economic climate, it is unrealistic to do that.

The case on accommodation and attractions is also far more compelling, we believe, because the export argument is far stronger as the disparity with other EU rates is much higher. The competitiveness factor is also much stronger as well. People will go to France for Disneyland Paris or they will come to the UK for Merlin attractions, but they do not tend to travel so much because of food and food prices.

Our argument is that we believe the case for reduced VAT on accommodation and attractions is highly compelling and it will correct this disparity with the rest of the EU and really enhance our competitiveness. Let's get the Government to do that. For us, once the Government see this is working and see this is accruing, to us it would be a bit of a no-brainer not to think about in what other areas we are permitted to have reduced VAT according to EU rules and consider whether we should extend it.

Q39 Ian Paisley: We have a lot of event-driven tourism. One of the largest sporting events on these islands is a motorcycle race called the North West 200. We also have a huge event every year, the 12 July celebrations, which bring people out on the streets with carnivals, celebrations and things. How would those types of organisations benefit? How would those types of events benefit our economy if VAT was changed?

Graham Wason: At the moment, those kinds of events are attracting people to stay overnight. Therefore, those people would benefit from the reduced cost of their accommodation overnight. However, their attendance at these events under what we are calling stage one of what we are asking for would not be changed. In the same way as restaurants, there are highly compelling arguments to say that all sporting events should have reduced VAT for attendance, for visitors to go and see these events. Again, we say do this initially. The proportion of EU countries that have reduced for visiting sporting events is about half. It is not the 25 out of 28 that it is in the case of accommodation. Again, do it where the argument is so strong first, and in a few years we would hope that would be extended to restaurants and sporting events.

Q40 Ian Paisley: I have one final and very specific question for you, David, about the situation of your visitor attraction in Bray. This is quite fascinating. Could you give us an overview of before and after the VAT change and the benefits you have seen?

David Bridgford: Prior to 2011, we had around 90,000 to 95,000 visitors a year to that particular attraction. Then subsequent to 2011 we made an investment in that business, in 2012. The numbers have jumped up. They have been reasonably steady between 100,000 and 105,000 since then. Some of that is attributable to keeping prices low. Some of it is attributable to investment. However, a pure before and after shot shows there is an uplift around this time.

Q41 Ian Paisley: As a businessman, you would have more money to invest if you were not paying as much VAT.

David Bridgford: That is correct, yes—or you could pass it on in prices. Part of our desire to discuss this topic with Government is to talk about how much gets passed on in price, how much gets passed on in wages and how much gets passed on in additional investment.

Q42 Ian Paisley: What is your overview on that? How much is passed on?

David Bridgford: As a company, we have said we will pass on the whole of the benefit in pricing, because the way we put our pricing boards up is to show the pre-VAT price and the VAT in the total. It will be very obvious if we change our methodology.

However, one of the things we are very conscious of is that the introduction of the living wage will affect tourism businesses, because they have a significant number of employees who are on the minimum wage or close to or below the living wage. Therefore, that measure, we understand, will have some impact on employment in the sector. An ability to see the sector have some amelioration from that policy change—through lower VAT—would be extremely helpful for the sector.

Graham Wason: May I add to that, Mr Chairman? Three of our major supporters, Merlin Entertainments, Bourne Leisure and Premier Inn, have all committed to or pledged to pass every penny of the VAT cut through from day one in the form of lower prices. We believe that competitive pressure will force everybody else to follow very quickly.

Interestingly, we have modelled all kinds of scenarios. In our modelling, where we show that impact of pass-through being very rapid and a high proportion, the Treasury makes less money. The Treasury makes more money if some of it is held back—some of it is passed through in lower prices to make it more competitive and stimulate demand, but some is held back to increase staff wages and to put into investment. That gives you a faster feed-through into higher quality. It is the higher quality that then drives the next wave of expansion.

Ironically, in a way, the numbers seem to suggest that the Treasury makes more money if the operators do not pass through every penny immediately.

Q43 Oliver Colville: Gentlemen, thank you very much for coming to see us. To put this into context, I represent Plymouth, as you may know. We are about to commemorate 400 years of the Mayflower leaving. I would be very interested if you could bear that in mind when I ask you some questions.

You recognise that this is going to cost the Treasury a sum of money in the first year. At this stage in the game—and especially today—when we are looking at trying to cut the deficit, is this an appropriate time to seek this kind of reduction in VAT?

David Bridgford: If I give you a bit of the macro picture of the UK tourism sector, the position over the last few years is that the tourism sector has created around half the jobs that have been created between 2010 and today. We have seen increases in the levels of tourism across the UK. However, the UK's international market share is in decline. The international tourism sector is growing very rapidly, but we as a nation are not getting our fair share—or we are not maintaining market share.

Between about 2006 and 2013, roughly one-third of our major markets have grown and two-thirds of them have shrunk. Within the top 10 markets inbound into the UK, nine have shrunk and only one has grown. Delaying to another time will just see us lose out to our international competitors. Relative to the sums of money that the Chancellor is able to find for other pet projects, the sums we are talking about are relatively modest.

Q44 Oliver Colvile: Do you have any evidence that it is the issue of VAT that is the one killer, as far as the tourist economy in Northern Ireland is concerned? Are there other issues as well?

Graham Wason: Of course there are other issues. We would not claim that VAT is the only one, nor even necessarily that it is the major one. Interestingly, though, in the Republic of Ireland, going back to the 1980s and 1990s, when the Republic of Ireland first saw the light and reduced VAT for tourism from what had been the standard rate, there was a very significant growth in tourism.

Of course, other factors were involved. There was investment going on, funded largely by the EU, in the Republic at that time. However, we did a survey of tourism operators at the time in the Republic and the feedback we got was that the big change in VAT at that time was the biggest determinant of this beginning of real growth in tourism in the Republic.

Q45 Oliver Colvile: Of course, last year, southern Ireland organised the Happenings, did it not? That was this big event that encouraged people to come in. Did that not distort some of the figures and issues, perhaps?

Graham Wason: The latest change in Ireland from 13.5% down to 9% occurred in 2011. There have been four years since then. Three significant studies were published last year analysing the impact over those years and they all came out very positively, saying that there had been sustained growth and an increase in foreign visitors. There had been a cost to the Treasury, which was one-third of the cost that the Treasury had been predicting. That is an interesting one to feed back to Treasury colleagues and officials. The reputation of Ireland had gone up significantly in international circles as a result of this decline.

Yes, there will always be blips. Generally, the UK had a good year in 2012 with the Olympics and the Golden Jubilee. That helped our figures. Then there was a falling-off the next year. There are always these ups and downs, but when you measure impact as we have done, looking at different examples in different countries over a number of years,

where those ups and downs even out, you can see the overall positive trend that is induced by lower VAT rates.

Q46 Oliver Colvile: You also said there were two areas the Government could use if they wanted to. You were obviously talking about the issue of VAT. Are the Government using either of those two areas to make some derivation? If not, where would you suggest the other area might be?

Graham Wason: I am sorry. I forget where I might have referred to two areas and what those two areas might be. You mean two reduced rates—I am sorry.

Q47 Oliver Colvile: Are the Government using any reduced rates at all?

Graham Wason: Yes. All member states are permitted to have up to two reduced rates. The UK has one reduced rate, which is 5%.

Q48 Oliver Colvile: What is that used for?

Graham Wason: The 5% reduction is used for a limited variety of things: insulation materials, car-safety materials, child seats in cars, domestic fuel. A limited range of products has that 5% rate. It also applies to hotels on the Isle of Man and cable cars.

Q49 Oliver Colvile: When southern Ireland ran the Happenings events, how much do you estimate that might have boosted the tourism economy in southern Ireland?

Professor Blake: I do not have an answer to that.

Q50 Oliver Colvile: Perhaps you might have a look at that. The other point that I want to raise is that the difference between Northern Ireland and southern Ireland is that southern Ireland is part of the euro. What impact does that have? Is there not also the issue of the different exchange rates? If I wanted to go somewhere, why would I end up wanting to go to Northern Ireland, rather than coming to the beautiful county of Devon? Is it just the cost that will drive people to come to Northern Ireland or is there another reason?

Professor Blake: There are all sorts of other reasons to do with the things that are attracting them there, but we know that price is an important determinant of tourism flows.

Oliver Colvile: Thank you very much indeed for that.

Q51 Nigel Mills: I suspect over the last few weeks we have all seen lots of industries and lobby groups sending us studies that say for every pound you spend on this it will return £3 or £5—and it keeps going up the multiples—to UK GDP or something. Certainly, when you look at one in isolation, it looks like quite a good deal. When you look at 75 different initiatives, you start picking things out. How do you get to the view that your VAT reduction

is better than spending a bit more money on construction or manufacturing or whatever other industries? A fuel duty cut has been quite topical this week.

Graham Wason: There are a few key reasons for that. One is because we are asking for something that simply redresses a disadvantage the tourism industry is currently operating under compared with other EU countries, where we have a VAT rate that is double the EU average. That is one reason. Another reason is because the EU rules allow it. Manufacturing or car manufacturing are not permitted to have reduced rates of VAT. They might try to make a good case, but in this particular sector, where we are talking about VAT, they have no case to make.

A third factor is that, because of the international nature of tourism demand, there is an export element. If you expand some sectors, you might be drawing out from other sectors of the economy. The whole purpose of Adam's work with the Government model is to address that impact. To an extent, if you make tourism more competitive, we are taking business from our competitor countries, from Germany, France, Spain, Italy and so on—drawing business from them and not just sucking business out of other sectors of the UK economy. That cannot be said for most other sectors of the economy.

Q52 Nigel Mills: The £1 billion you want us to spend on this, give or take, would be 2p off fuel duty, which would make it easier for my constituents to get to work and easier for them to have some leisure time at the weekend. It would make it easier for haulage businesses, so it would feed through to every price in the country. The problem with a tourism cut is that it does not affect most of our constituents, who do not tend to stay in hotels in the UK very much.

Graham Wason: If I might suggest, it would affect your constituents a lot more than is recognised. First of all, one of the interesting things is that there are only about half a dozen constituencies in the country where tourism and hospitality is less than a 5% contribution to employment and GDP. It does affect everybody—all of you.

In terms of a comparison like 2p off fuel duty, we have done all those comparisons. We have used the Government's own model. As Adam said, we have used it to compare things like reduced corporation tax and reduced national insurance payments, but we have also looked very specifically at 2p off fuel duty and we have demonstrated that cutting VAT on tourism is going to give you far more growth to GDP and far more jobs than those other measures—at lower cost. The economics is compelling.

Q53 Nigel Mills: Can I take you back to the international comparison on competitiveness you quoted? We were 140th out of 141. Can you recall where we rank in the overall study for tourism competitiveness, rather than just on price?

Graham Wason: Yes. Overall, we do very well. We are fifth, which is extraordinary. Given where we are on price, it is extraordinary how well we do overall. That is a testament to the quality of our tourism product. However, the World Economic Forum, in their analysis, suggests that our position is not sustainable. It will drop over time unless we address the price-competitiveness. It comes back to what we have said before: price is clearly not the only determinant; it is probably not the main determinant; however, it is one determinant over which, in terms of VAT, our Government has direct control.

Q54 Nigel Mills: What does the report cite as the main reason we are not price-competitive? Is it the level of VAT or is it something else?

Graham Wason: One of the main factors is air passenger duty. We, as a campaign group, support the idea of lower air passenger duty, because we see that as a constraint on the growth of the UK tourism industry. We have also done analyses of the impact of reduced tourism VAT compared with reductions in air passenger duty. That work has been undertaken by PwC, who have done all of the analysis on the A Fair Tax On Flying campaign. They have used the same modelling approaches and Adam's work, using the same kind of model to show the impact of APD compared with a reduction in tourism VAT.

PwC cannot say one is better than another—particularly as they have earned so much money out of supporting the air passenger duty campaign. However, what they do say, very clearly, is that the export benefit of cutting tourism VAT is substantially greater. That is very simply because, if you reduce air passenger duty, you make it cheaper for people to come in but you make it cheaper for people to fly out. If you cut tourism VAT, you make it cheaper for people to come in and cheaper for our residents to stay at home and enjoy the wonderful benefits of the UK tourism industry. You get a double benefit.

Q55 Nigel Mills: Have we perhaps missed the timing of this? When the Republic did their reduction from 13% to 9%, that was in the depths of the economic crisis. Hotels had very low occupancy in Dublin. You could see there was an industry in crisis that needed help. As the economy, we hope, is recovering and keeps recovering, is there not just more money for people to spend so there will be more tourist activity? Is this something that was needed five years ago but perhaps is not needed now?

David Bridgford: It is interesting that they did it in the depths of a deficit that was possibly worse than our own. As their economy recovered, they have elected to keep it as a positive measure. It is clearly something their Government has decided is a priority to maintain—against other priorities they may have.

Q56 Nigel Mills: I am intrigued, Mr Bridgford. You say everything is so price-sensitive. I am sure Merlin attractions are very good value, but they are not cheap, are they? Have you ever done the analysis on what would happen if you were to take 20% off your own prices to see whether that boosts your numbers? I presume you set your pricing at where you get the most revenue.

David Bridgford: The heart of our business is channel management, making sure we can put promotions in the hands of more price-sensitive guests. Managing the volumes we get is absolutely done through price mechanics.

Q57 Chair: On the reduction, the Republic of Ireland has 9%. You are looking at 5%. There is quite a bit of revenue lost there between 9% and 5%. For the reason Oliver gave for example, today we are looking to try to balance the books here in the UK. Would it not be more sensible to try for 9% so it is at least equivalent to the Republic of Ireland? I am sure

they would support it, given there is one tourist body that covers the whole of the island. Would that not be a more sensible approach?

Graham Wason: There is definitely a case to be made for VAT on tourism in the UK at 9%. The greater the change you make, the bigger the impact. It is not a straight line. If you drop VAT by 1% or 2%, to be frank, because of all of these other factors we have talked about, you are not going to see much change. 15 points of drop is going to be very substantial. That will make us go from double the rate of our competitors to half the rate. That will have a very big impact.

If we come down to close to the average EU rate, which 9% would be, there would still be a very significant impact. From 20% to 9% is still significant. There is a strong case to be made for that. We have done modelling of interim rates. We have not done 9%, but we have done 10%—and it still shows all the same benefits but just not quite the same scale as our rate of 5%. We have just not pushed that forward because of the feedback we have had from the Treasury that they do not want to see any further complexity. Of course, if there were a decision made to exercise the UK's right—you could do it tomorrow or today, in today's announcement—and we chose to have a second reduced rate, there would be a strong case for that.

Q58 Gavin Robinson: Before I arrived this morning, I thought there was a really compelling case for the reduction of VAT. I am sorry to say that this morning I am being moved slightly from that compelling case. First, can I raise a point with you, David? If there were a reduction in VAT, you could see that supplementing your wage bill as opposed to bringing the necessary price reductions that would then stimulate the market. Can you clarify that? Graham did slightly, by saying that your organisation, Merlin, have committed to a full price reduction. What was the point about supplementing the wage bill?

David Bridgford: Our commitment is to pass on the tax change. However, if you look at the construction of the tourism sector in the UK, and in Northern Ireland as well, in Northern Ireland it is roughly 80% small and medium-sized businesses, and 45% of those have five or fewer employees. It may be that the industry would agree with Government that, in return for a VAT cut, some of that cut would be passed on in the form of higher wages.

When you are running a small business—I accept ours is a different scale of organisation—you are very conscious of levels of staff. Staffing is probably the majority of your cost base. With something like the living wage being introduced for people over 25, it is quite likely that small businesses will consider either whether they employ people over the age of 25 or whether they could do with fewer.

Therefore, for a sector like tourism, which will be particularly hit by this change in living wage, it would be good to see the Government recognise that and ameliorate that by some form of agreement. However, our intention is to pass the cut through, but what we are saying is that it is possible, as was done in France, to reach an accommodation with the Government as to how that would be done.

Q59 Gavin Robinson: It is slightly off piste, but I am not sure why the Government should support the tourism sector to pay the living wage and no other sector, if that is a consequence of pushing for this change for tourism—but I do not expect you to respond to that.

In the experience of the Republic of Ireland, can we quantify how many businesses passed on the reduction and how many absorbed the reduction for their own receipts to sustain or grow their business?

Graham Wason: I do not know the answer in terms of the number of businesses, but from those three studies I mentioned, they show the rate of pass-through at the time of the study, within three years of the change, was very roughly around 50%; 50% went to lower prices and the other 50% to a mixture of increased wages, employment and investment.

Q60 Gavin Robinson: In the Republic of Ireland, it was not just a reduction for tourism; it was hospitality as well.

Graham Wason: It was hospitality and also air passenger duty and visa charges.

Q61 Gavin Robinson: I understand from earlier exchanges that the hospitality sector, the British Beer and Pub Association and so on, are not members of your VAT group. In principle, do you have an objection to the extension of a cut from tourism to include hospitality?

Graham Wason: On the contrary, we would support it. However, we very clearly have gone for this two-stage strategy. For reasons I explained earlier, I believe the economics makes it more affordable not to include restaurants at this stage. The economic and competitive arguments are far stronger in the case of accommodation and attractions.

Q62 Gavin Robinson: Personally, can I ask whether you were being facetious when you said you might holiday in Northern Ireland if it were a little cheaper?

Graham Wason: No, I was not being facetious. I love holidays; I love exploring different places. I have enjoyed going to Ireland and, as I mentioned, have been to the Province on work-related trips a number of times.

Q63 Gavin Robinson: For you, a small reduction would make that substantial difference you could not find in the market already.

Graham Wason: No, to be honest, it would not. I was being facetious. I am sorry if that might have, in any way, misled my intentions, but I am genuinely interested to go. In my case, it would not be determined by a relatively small reduction in price, necessarily. If I might add something, the campaign is not represented only by big businesses like Merlin. We have tens of thousands of small businesses represented. I do also have my own tourism business. It is a rural tourism business, a self-catering operation in Somerset. It is not too far for me to get up to Bristol and hop across to Belfast.

Q64 Gavin Robinson: I will maybe just explore this cultural attraction and what that includes. I am looking at Tourism Northern Ireland figures here. This talks about 788,000 people visiting the Giant's Causeway, which is a world heritage site. That clearly falls into being a tourist attraction. We then have Pickie Pool, which is in Lady Hermon's constituency. It is a paddling pool where you can pedal a giant swan, but it is essentially a council amenity. Would that, similarly, be described as a cultural attraction, and would the council then be able to benefit from the reduction, or their users?

Graham Wason: The definition is wider than just cultural attractions, so anything that is attracting visitors would apply. In the case of a council-run facility, if it is being run commercially and charging VAT, definitely that would be included.

Q65 Dr McDonnell: I have two very quick questions. Thank you for all your evidence so far. It has been enlightening. You mentioned other countries in Europe on the reduced VAT rate. Do you take into consideration local taxes there? Quite honestly, I would say in some cases that the reduced VAT rate only compensates for local taxes. My personal experience in visiting various EU countries is that the local council has perhaps 40 cents or 50 cents of a euro per bed night or whatever. That is just one example of the local taxes. How do you see that stacking up with reduced VAT or impacting on it?

Graham Wason: It is a good question. That is one of the arguments that politicians still put to us: they claim that we have not taken into consideration all those other taxes that you get in other countries. We did commission a study last year that looked at the total tax burden for tourism in a basket of different countries, just to test that, and that study showed unequivocally that the UK was charging overall higher taxes than all of our competitors.

We have also often been challenged by the fact that some places have so-called bed taxes or a local tax applied to tourists. We are not aware of any bed taxes that are applied nationally. They are applied either by region or by city. There are not many of them. Barcelona has one. Berlin has one. Paris has one. They tend to be quite modest in terms of the size of the tax compared with the amount of VAT on hotel accommodation. There are as many examples of cities introducing them and then getting rid of them again because they find that they are counterproductive, because all they do is increase price and deter visitors. They are a very visible way of showing, "We do not want visitors. We tax you extra," so many cities that have introduced them have subsequently removed them again.

Q66 Dr McDonnell: Another simple enough question, but maybe simple in saying so but difficult in answering, is do you see discussions to reduce corporation tax in Northern Ireland having any impact, or is that only going to impact on larger operations?

David Bridgford: Our assessment of that, again in the Northern Irish context, is that there are a significant number of small and medium-sized enterprises, many of which may not pay corporation tax, so the benefit may not flow as a consequence. There are reasons why the Government is trying to be internationally competitive with its corporation tax rate, but in the tourism sector, where you have got a lot of small operations, they may not be paying corporation tax anyway.

Q67 Lady Hermon: I have listened intently to the evidence given, and so what I have scribbled down here picks up on some of the evidence that in fact each of you has contributed. It has been very interesting—really very interesting. First of all, it is obvious that your campaign is nationwide. It is right across the United Kingdom. In response to my very good colleague here, Gavin, Mr Robinson, when asked about visiting Northern Ireland I did not pick up a clear commitment. May we just have after this evidence session a clear commitment? I say that because of course tourism is a devolved responsibility to Northern Ireland. It falls within the Department of Enterprise, Trade and Investment within Stormont. It just seems to me if this is a national campaign, as it is—you made it quite clear that VAT should be reduced right across the United Kingdom—you would agree with me that there is no good reason at all for representatives, you, not to go and meet with the Minister responsible at Stormont. Could we have that commitment on the record?

Graham Wason: I would very happily commit to the record we would be delighted to go and meet the appropriate Minister at Stormont or whoever else. I would like to say that the support and commitment we have had from the devolved Governments has been very great, nowhere less great than in Northern Ireland.

Lady Hermon: That is very good to hear.

Graham Wason: I am delighted to say that every political party in Northern Ireland supports our campaign, with the exception of Sinn Féin.

Q68 Lady Hermon: What is the justification presented, if they present any justification at all for what they do?

Graham Wason: It tends to be just very broad blanket that they do not support individual things. They have a blanket policy.

Gavin Robinson: Probably because it is less than the public value of what you are suggesting, and they would rather have equilibrium.

Q69 Lady Hermon: I just wondered if that was the excuse that was being offered.

Graham Wason: We work very closely with Hospitality Ulster and with the Northern Ireland Hotels Federation. I know that you are meeting them, I believe, next week. We have very strong co-operation with them.

Q70 Lady Hermon: That is very good. That is very interesting. Worrying, but in some ways not surprising that Sinn Féin have not supported your campaign. That is rather odd. Then just moving to something completely different, you will know and you will be very aware that the Autumn Statement is going to be announced later today. The Chancellor will stand at the Dispatch Box and tell us what he has in store for us for some years to come. What submission has your organisation made to the Chancellor on the eve of the Autumn Statement?

Graham Wason: We have made submissions to the Chancellor prior to every Autumn Statement and every Budget for the last five years or so.

Q71 Lady Hermon: Are you hopeful of some good news for the industry? You remain hopeful? Always the optimist.

Graham Wason: To be positive, the last Government and the present Government appear to be demonstrating, for the first time I would say, that they are beginning to understand that tourism is a significant contributor to the UK economy: a 10% contribution to jobs and 9% to GDP. That is significant. Even more significantly as a measure of that, until the recently gone election the word “tourism” has never featured in the manifesto of any major political party. In the last manifestos before the election that we have just gone through, six out of 11 political parties included not only tourism but a call for a reduction in VAT on tourism.

Q72 Lady Hermon: Sorry, just to interrupt, was that in the Conservative manifesto?

Graham Wason: It was not but at least the Conservative manifesto did mention the word “tourism” and had a paragraph on tourism.

Q73 Lady Hermon: And did the Labour Party?

Graham Wason: The Labour Party did not commit. The three then major parties did not commit to reduce VAT in their manifestos, but they all included paragraphs on tourism. We feel greatly encouraged that this recognition is beginning to be achieved in government circles. Therefore we would hope very much the next step is, “Now that we recognise tourism is very important and has the potential to fill some of the holes that we have had in banking business, in financial services and in the declining oil and gas sector, let’s find the best way to support it.” We believe this measure is the best way to support tourism.

Q74 Lady Hermon: So, the Conservative manifesto mentioned the word “tourism” but not in the context of cutting VAT, which is a bit disappointing. We have a Conservative Government, a majority Government at the present time, so what priority would you as an organisation say the present Government gives to tourism in the United Kingdom? Little? Some? Pick a word.

David Bridgford: As a representative of the tourism industry, we think it is relatively low. Tourism sits within the Department for Culture, Media and Sport. It does not have a dedicated Minister.

Q75 Lady Hermon: Is that a mistake?

David Bridgford: Yes, we think so. We think an industry with the exports and the scale that this industry has should be given more prominence.

Graham Wason: This is an industry that is the sixth largest contributor to UK exports. That is not recognised in government and it seems to be overlooked. It could be so much more powerful. Again, our recent figures show that there could be a £20 billion

improvement in UK exports over the next decade from this single measure. Is that not worth examining more closely and taking more seriously?

Q76 Lady Hermon: Yes. Professor Blake?

Professor Blake: Yes. I would also add that tourism is an industry that needs co-ordination. It needs a strategic lead from somebody, and really that can only be government. It is an industry that is lots of different businesses that are doing what they see as completely different things, and they are not necessarily part of the tourism industry and they are not going to get involved in any kind of strategic decision making. It needs government to be fulfilling that role.

Q77 Lady Hermon: Yes, so a dedicated Minister within government would obviously be the answer to that problem, which you have identified quite clearly.

Professor Blake: That would be one part of it. VisitBritain has been having its funding cut in the past in the same way that most other Government Departments have through the DCMS. I suppose that is what we would be looking for today: how much DCMS funding, and VisitBritain funding coming through it, gets cut.

Graham Wason: I think it is interesting, I might say, that at the end of last year we were invited to present our evidence to the Culture, Media and Sport Committee, at that time chaired by John Whittingdale, among a very expert panel. Tracey Crouch was on the panel. The recommendation of that Committee was very strongly that the Government should be looking at this much more seriously. Those two characters are now responsible for tourism within Government and we have yet to see them following through on that commitment and dedication that they showed in their Select Committee report.

Q78 Lady Hermon: Have you asked them? Have you written as an organisation? Have you contacted the Secretary of State and the new Minister?

David Bridgford: I do not think we have.

Graham Wason: Representatives are having ongoing discussions, particularly with Tracey Crouch.

Q79 Lady Hermon: Right, so ongoing discussions.

Graham Wason: Yes.

Lady Hermon: Yes, someone within the organisation. Perhaps that should be beefed up a little bit. Yes.

Q80 Chair: Just on that point, when you say there is not a Minister for tourism, it does fall within Tracey Crouch's jurisdiction. She might not be called the Minister for Tourism but there is somebody in government with that responsibility.

Graham Wason: That is true. If I might just say, with a little feeling of pique, that I think following the last election and the previous reshuffles, on about the last three occasions the word “tourism” has been forgotten in the announcement when Cabinet responsibilities have been allocated. I believe that on each of those occasions it was a Minister for Sport and a Minister of something else, but that tourism had been forgotten, and then a correction came to say, “Minister of Sport and Tourism”.

David Bridgford: It was tacked on the end.

Lady Hermon: Oh dear.

Chair: There are various responsibilities Ministers have, though. It would be impossible to list every one in their title, but you are suggesting that probably the word “tourism” should be more prominent than in these circles.

Professor Blake: It is also worth pointing out that these things are difficult to measure exactly, and people do have arguments about the exact way of doing it. However, when we look at the total number of jobs created in the UK because of tourism and the GDP contribution it has, it is about the same as the employment created and GDP generated by culture, media and sport put together. It can even be higher under some ways of calculating it. It is an important part of that Department to be in this situation for so long.

Graham Wason: It is also greater than agriculture, for example, and some other sectors that have dedicated Government Departments. We just feel it is a very important part of industry. It is not represented by the industry body, for example. It is represented by this relatively junior Department, and even within that Department the word “tourism” is often forgotten. We feel it is just a reflection generally of government, not only this Government but all previous Governments, not recognising the value of tourism.

Q81 Lady Hermon: I think your evidence supports that today. May I just clarify something? Was I right in hearing that half the job increases in the UK since 2010 have been in the tourism sector?

Graham Wason: It is not half. It was talked about last year as being a third, but the figure we have got currently is, I think, 17% or 19% over the last four years have been just in tourism and hospitality, of all the additional jobs created.

Q82 Lady Hermon: That reinforces the idea and the argument that you have made, quite rightly, that in fact tourism is a really significant industry within the UK. It is a growing industry and should be recognised as such by the Government.

Graham Wason: Also the employment that tourism is generating. We have a majority of female employment over male employment, which cannot be said of all sectors. We have almost double the national average of youth employment and young people employment. We also employ relatively high numbers of unskilled people and train them, so we think that the social benefits of tourism employment are strong.

Q83 Lady Hermon: I know that you cannot see my notes, but that brings me neatly to my last question and that is the skills gap. In your written submission to this Committee you have

very kindly, among all of the other points that you made, in paragraph 2, point 2, and that is regarding training, said that there are skills gaps in the industry. Is there any regional breakdown of those figures? Do we know where the skills gaps, for example, are in Northern Ireland?

David Bridgford: I do not think we have got any regional data.

Graham Wason: I do not have. I think it is quite likely to exist because there are organisations specifically involved in helping to address skills gaps in tourism and hospitality.

David Bridgford: We have submitted some data, I think, to the All-Party Parliamentary Group on the Visitor Economy, which is running at the moment.

Q84 Lady Hermon: Yes. Nationally where are the skills gaps in the tourism industry?

David Bridgford: I guess the gap is that for a lot of people often their first experience of employment might be in tourism or in the hospitality sector. Therefore the gap is that we are taking people as either school leavers or out of higher education. The gap is in the experience of operating in the sector in particular. In certain areas like cheffing skills and other areas there are some specific things. In our sector engineers are quite hard to come by. That might be the subject of some separate evidence we could provide.

Q85 Oliver Colvile: The engineering story, frankly, is a thing for the whole country. It is not just in your sector. Of course you also have, if I might say so, Business, Innovation and Skills, which you can always go and lobby. I assume you do that on a regular basis as well, so it is not just about having one person who is going to be identifiable. In fact, you are in quite a good position, because you can end up by lobbying at least two, if not three, separate Departments who will take a keen interest in what you want to do. On the issue of VAT, which we have been talking about at some length today, surely a reduction in air passenger duty is much more a worthwhile campaign to go and run, on the grounds that that would get more people going into Northern Ireland and coming into the United Kingdom as well?

Graham Wason: For the reasons I mentioned earlier, we absolutely support reductions in air passenger duty, but we believe that cutting tourism VAT is a doubly efficient measure of generating growth. That is going to make it cheaper for people to come in and also cheaper for residents in Northern Ireland to stay in Northern Ireland, so you get double the benefit.

Q86 Oliver Colvile: With APD and what you are suggesting on VAT, what total bill would that lose to the Treasury?

Graham Wason: We have not analysed that total cost figure. Again it is noteworthy that in the Republic at the time of their crisis, and it is interesting that it took a crisis for them really to see the light, they took a more radical approach. They recognised the value of tourism and they recognised the potential for tourism to help in their economic crisis. They therefore had this broader strategy of reducing visa charges, reducing air passenger duty and reducing VAT across the board on restaurants and attractions and hotels. It was that combination that has had such a powerful effect. We certainly will not argue against air

passenger duty. We will simply point out that the export advantages of cutting tourism VAT are much greater than those by cutting air passenger duty.

Q87 Oliver Colvile: You would make cutting VAT a bigger priority than reducing APD?

Graham Wason: Absolutely, unequivocally.

Chair: It has been an extremely interesting session, a very good start to our inquiry. Gentlemen, thank you very much for coming.

Graham Wason: Thank you very much too for the opportunity. Thank you.