



Response to HM Treasury consultation on the potential approach to duty and tax free goods arising from the UK's new relationship with the EU.

Stop Stansted Expansion ('SSE') was established in 2002 in response to Government proposals for major expansion at Stansted Airport. We have some 7,500 members and registered online supporters including 150 parish and town councils and local residents' groups and national and local environmental organisations. Our objective is to contain the development of Stansted Airport within sustainable limits and, in this way, to protect the quality of life of residents over wide areas of Cambridgeshire, Essex, Hertfordshire and Suffolk, to preserve our heritage and to protect the natural environment.

1. Introduction

- 1.1 This document is the response from Stop Stansted Expansion ('SSE') to the HM Treasury ('HMT') consultation on the potential approach to duty and tax free goods arising from the UK's new relationship with the EU. An introduction to SSE is included on the front page of this response.
- 1.2 Since its establishment in 2002 SSE has taken a close interest in the economic impacts and tax treatment of the UK aviation sector and has responded to a number of consultations, published a number of papers and made numerous submissions on the subject including to the DfT, the CAA, the Competition and Markets Authority, the Airports Commission, HMT and the House of Commons Transport Committee. The most important of these publications can be accessed on the SSE website at: <http://stopstanstedexpansion.com/economics.html> and http://stopstanstedexpansion.com/airports_commission.html.
- 1.3 Our comments are focused on the aviation sector but we would expect the same principles to apply to journeys by road and sea, including cruise ships.

2. Overview

- 2.1 Our starting point in responding to this consultation is that the duty-free concession – being defined as alcohol and tobacco sold free of excise duty and VAT – is an anachronism which runs contrary to overarching Government policy in a number of fundamental areas including those which we set out later below.
- 2.2 There will doubtless be many arguments in favour of extending duty-free sales and maintaining the current tax free arrangements from the travel industry, particularly airports, airlines and retailers in the aviation sector. However, Government policy must be evidence-based and must weigh the potential commercial benefits to industry participants against the negative impacts of duty-free and tax-free sales, including:
 - Encouragement of alcohol (especially spirits) and tobacco consumption;
 - Loss of sales to UK High Street and UK retailers generally (small and large);
 - Unnecessary loading onto aircraft creates needless carbon emissions and security risks;
 - Lack of social equity – these tax concessions are not available to the 50% of the UK population (mostly the least affluent) who do not fly;
 - Loss to the Exchequer; and
 - Subsidises cost of air travel¹ and thereby artificially inflates demand.
- 2.3 The fact that duty-free sales have been a feature of non-EU travel for generations is not a justification for seeking not only to maintain this concession but to widen it to all international travel at the end of the Brexit transition period. If there now needs to be a consistent approach applied to EU and non-EU travel it should be based on ending duty-free for all international travel rather than re-introducing it for EU travel. This would also be a welcome simplification.
- 2.4 With regard to tax-free (i.e. VAT-free) sales, excluding tobacco and alcohol products, again the opportunity should be taken to simplify the arrangements. Tax-free airport shopping, which

¹ Air travel already benefits from zero excise duty on aviation fuel and VAT exemption.

has no statutory basis, should be ended so that there is a level playing field between airport retailers and the High Street. It is acknowledged that this could put the VAT Retail Export Scheme ('RES') under pressure. We would strongly encourage the government to move as quickly as possible to digitisation of VAT RES and also to look closely at the type of scheme in operation in Norway and Sweden as referred to in paragraph 4.20 of the consultation.

2.5 Finally, in this section, we would urge the government to use this opportunity to commence a root and branch reform of the current arrangements, not confined to the arrangements with our former EU partners, and to carefully weigh the evidence. Our firm view is that the evidence will overwhelmingly weigh in favour of ending duty-free sales of alcohol and tobacco and ending tax-free shopping at airports.

3. Answers to consultation questions

Q1: The government would welcome any evidence or views on reintroducing duty-free and tax-free personal allowances to passengers travelling from the EU to the UK, including the impacts that these could have.

A1: In Section 2 above we identified the following negative impacts:

- Encouragement of alcohol (especially spirits) and tobacco consumption;
- Loss of sales to UK High Street and UK retailers generally (small and large);
- Unnecessary loading onto aircraft creates needless carbon emissions and security risks;
- Lack of social equity – these tax concessions are not available to the 50% of the UK population (mostly the least affluent) who do not fly;
- Loss to the Exchequer; and
- Subsidises cost of air travel² and thereby artificially inflates demand.

Q2: The government would welcome views on whether the current personal allowances for alcohol and tobacco imports should remain the same or should be changed, and if so why?

A2: There should be **zero** personal allowances for duty-free alcohol and tobacco products other than a de-minimis allowance (e.g. one day's consumption) for a tobacco product.

Q3: Do you agree that the government should extend duty-free sales to those travelling to the EU?

A3: No

Q4: The government would welcome any evidence or views on the impacts that a return of duty-free sales for passengers travelling from the UK to the EU could have.

A4: We believe that the impacts would be much the same as for travel from the EU to the UK.

Q5: The government would welcome any evidence or views on the impacts that an introduction of duty-free sales at international train stations could have.

A5: The focus of this consultation response is on air travel but, as stated above, we consider duty-free to be an anachronism which should be ended, **not** extended to rail travel.

Q6: The government would welcome any evidence and views of the impact of allowing duty-free sales for passengers on-board trains and to take-away.

A6: As per our response to Q5 above.

² Air travel already benefits from zero excise duty on aviation fuel and an exemption from VAT.

Q7: The government would welcome any evidence and views of the impact of allowing duty-free sales for passengers and crew on-board planes and ships.

A7: The focus of this consultation response is on air travel but, as stated above, we consider duty-free to be an anachronism which should be ended. We would however expect there to be practical problems in ending duty-free sales on board planes and ships in international airspace and waters, respectively, not least: what rates of duty would apply? Thus, provided it was for personal consumption **in the course of the journey**, we would envisage that duty-free sales to passengers, could continue to be permitted on this basis. The position with staff is different. Plainly, duty-free sales to aircraft crew should not be permitted whereas duty-free sales to off-duty crew of a cruise ship in international waters could be permitted.

Q8: The government would welcome any evidence or views on the current structures, practices and benefits of the VAT RES.

A8: See our response to Q10 below.

Q9: What additional benefits would there be to an extension of the VAT RES to EU residents in its current, or digital form?

A9: See our response to Q10 below.

Q10: The government would welcome any evidence or views on alternative and/or more effective ways of operating the VAT RES.

A10: The introduction of a digitised paperless system should be an urgent priority. Indeed we were surprised to learn that the current system is still paper-based. We were also surprised to learn that the current scheme has no minimum sales value. A minimum sales value of (say) £100 would reduce the administrative burden and would particularly beneficial if, as we suggest, there is an end to airside tax-free sales.

Q11: The government would welcome any evidence or views on the impacts of abolishing the VAT RES.

A11: It is not clear to us that the abolition option is open to the government, having regard to international tax conventions. Moreover, we suspect that the VAT RES is helpful to large High Street stores and these are currently facing challenges on many other fronts.

Q12: Do you agree that the government should extend airside tax-free sales for non-excise goods to passengers travelling to the EU?

A12: No, on the contrary the government should end airside tax-free sales for non-excise goods to all international passengers whilst maintaining the VAT RES and digitising the administration thereof.

Q13: The government would welcome any evidence or views on the impacts of abolishing airside tax-free sales.

A13: Whilst we do not have any specific evidence on this point, airside tax-free sales plainly create an unfair competitive advantage for airside retailers compared to the High Street. There is also considerable anecdotal evidence to suggest that the practice delivers excess margins for the retailer rather than better value for money for the consumer. In turn, airport retailers pay premium rents to airport operators, airport operators use the premium rental income to soften airport charges for airlines, which allows airlines to offer lower 'headline' fares, thereby distorting comparison with alternative means of travel and artificially inflating demand.

Q14: What additional benefits would there be to an extension of airside tax-free sales to EU bound passengers?

A14: Airside tax-free sales amount to a market distortion and have no statutory basis. It's for others to seek to identify the benefits. For our part, we have listed above a number of negative social and economic impacts.

Q15: What do you think the impacts of introducing tax-free sales for non-excise goods for passengers travelling from the UK to the EU could have?

A15: As per our answer to Q14. (We do not quite see the difference between Q14 and Q15).

Q16: The government would welcome any evidence or views on the impacts that an introduction of tax-free sales at international train stations could have.

A16: The focus of this consultation response is on air travel but, in the same way that tax-free sales at airports provide an unfair competitive advantage to airside retailers and should be ended, they should **not** be extended to rail travel. The simplest and fairest approach is to end the practice altogether, whilst maintaining and modernising the VAT RES.

4. Closing comments

4.1 A news article in today's *'Telegraph'* reports on the interim results published yesterday by Imperial Brands plc, one of the five major global cigarette companies outside China. The results are for six months to 31 March 2020. The following is an extract from the news article:

*"[The CEO] said: "Overall Covid-19 has only had a small impact on trading but **we expect this to be more pronounced in the second half due to continued pressures on our duty free and travel retail businesses.**"*

With airports largely shut, smokers are missing out on cheap duty-free cigarettes. It means that fewer packs are being bought, but customers are having to spend more on their habit in the shops so the value of sales has held up.

*[The Finance Director] said "**Usually when people can buy something cheaper, they buy more of it.**"* [emphasis added]

4.2 This is a clear acknowledgement by one of the world's largest tobacco companies that its sales of cigarettes are boosted by the duty-free concession. Moreover, the impact on sales is significant enough to deserve mention in the company's interim financial report. It follows that an extension of duty-free sales to those travelling to the EU would boost the sale of cigarettes. This would be in direct conflict with other longstanding government policies. The government should instead achieve uniformity by ending duty-free sales for **all** international passengers.

*Stop Standed Expansion
20 May 2020*