



Briefing: changes to duty free shopping in January 2021

October 2020

Overview:

- The government announced in September 2020 that from January 2021, duty free purchases will be extended to British passengers travelling to EU countries.
- However, tax-free sales in airports of some goods – such as electronics and clothing – will end for passengers travelling to non-EU countries. Such a change could mean that the UK is the only country in Europe not offering tax-free shopping.¹
- If this change is implemented at the end of the transition period, this could cost UK residents who fly to non-EU countries an extra £12.1 million in tax each year.
- The impact of the change could also lower UK GDP by over £2 billion and lead to 19,400 job losses.²

Current and future travel patterns:

- The International Air Transport Association (IATA) expects full-year 2020 traffic to be 66 per cent lower than 2019. Revenue passenger kilometres (RPK) was down 75.3 per cent in August 2020 compared to the same month last year, with the Middle East and Africa seeing the largest declines.³
- Revenue passenger kilometres in Europe, the Middle East and Africa are forecast to be down by more than 70 per cent in 2020 and into the first quarter of 2021.⁴ This is in part why the corporate debt of large UK airlines has been recently downgraded.⁵
- Traffic is not expected to return to 2019 levels until 2024, but will begin to increase steadily from 2021.⁶

Impacts on airport retailers and international context:

- This fall in demand has had a material impact on airports' revenues. Heathrow airport's revenue from retail sales in 2019 was £722 million, or 24 per cent of total revenues. Retail concessions saw a 6 per cent increase in sales from 2018 to 2019.⁷
- The covid-19 pandemic is likely to have a significant effect on current and future revenue. Retail revenues were down 56 per cent at Heathrow during the first six months of 2020.⁸

¹ Shepard, R., *Analysis: What could the end of duty-free mean for retail?*, Retail Week, 12 October 2020, www.retail-week.com/luxury/analysis-what-could-the-end-of-duty-free-mean-for-retail/7035953.article?authent=1, (accessed 14 October 2020).

² Pentol, A., *Ending tax free sales to 'cost UK economy £2.1bn in GDP', says report*, TRBusiness, 28 September 2020, www.trbusiness.com/regional-news/international/ending-tax-free-sales-to-cost-uk-economy-2-1-billion-in-gdp-says-report/196244, (accessed 14 October 2020).

³ International Air Transport Association, *Traffic Forecast Downgrade After Dismal Summer*, 29 September 2020, iata.org/en/pressroom/pr/2020-09-29-02/, (accessed 14 October 2020).

⁴ Fitch Ratings, *Outbreaks, Travel Limits to Delay Global Air Traffic Recovery*, 12 October 2020, www.fitchratings.com/research/corporate-finance/outbreaks-travel-limits-to-delay-global-air-traffic-recovery-12-10-2020, (accessed 14 October 2020).

⁵ Fitch Ratings, *Fitch Downgrades British Airways to 'BB'; Outlook Negative*, 8 October 2020, www.fitchratings.com/research/corporate-finance/fitch-downgrades-british-airways-to-bb-outlook-negative-08-10-2020, (accessed 14 October 2020).

⁶ Ibid.

⁷ Davitt, D., *Heathrow Airport retail revenue climbs marginally in 2019; revenue per passenger flat*, The Moodie Davitt Report, 26 February 2020, www.moodiedavittreport.com/heathrow-airport-retail-revenue-climbs-marginally-in-2019-revenue-per-passenger-flat/, (accessed 14 October 2020).

- This will also have knock on impacts on other industries. Separately, the abolition of the retail export scheme (RES) has been criticised by the fashion industry, with the CEO of Kurt Geiger criticising the decision as a “staggering own goal.”⁹
- Since airports are likely to face depressed demand for an extended period of time, further punishing consumers is especially inappropriate. Such a stark decline in revenue for the airlines and associated retailers should not be met with a tax rise on certain purchases.
- While tax exemptions do exist – such as no VAT on the purchase of airline tickets or duty on jet fuel – the UK has some of the highest aviation taxes in the world because of air passenger duty.
- France has a lower level of aviation taxes. French duty free allowances have also become more generous in an effort to win over London tourists.¹⁰

Calculations:

- In 2019, UK residents made 93,085,772 trips abroad.¹¹ Of these, 85.44 per cent were by air.¹² Of the 93.1 million journeys, 26,129,013 were for non-EU visits.¹³
- Assuming that 85.44 per cent of non-EU visits were undertaken by air, this would mean there were 22,324,995 visits by UK residents to non-EU countries.
- In 2012, 13 of the world’s largest airports surveyed 20,000 passengers.¹⁴ This found that 16 per cent of passengers had the intention of buying duty free shopping, of whom 58 per cent did. This would mean 9.3 per cent of passengers in airports making duty free purchases. Similar estimates have also been made.¹⁵ The changes could therefore affect 2,077,898 journeys.
- A 2017 survey showed that the average spend on duty-free by UK fliers was £39.85.¹⁶ In 2017, global duty free sales of tobacco and alcohol were found to be 27 per cent of total sales.¹⁷ Since the proposed changes in the duty free regime from 2021 do not affect these products for non-EU travel, 73 per cent of purchases could therefore be affected (£29.09).
- The total number of passengers multiplied by the average spend gives a figure of £60,446,068.
- The proposed changes to duty free for some purchases could therefore cost UK-resident fliers an extra £12,089,214 each year (£60,446,068 multiplied by 1.2, in order to reflect the standard rate of VAT).

⁸ Lane, M., *Heathrow Retail Director calls for an end to ‘quarantine roulette’ and government U-turn on tax-free goods*, The Moodie Davitt Report, 13 October 2020, www.moodiedavittreport.com/heathrow-retail-director-calls-for-an-end-to-quarantine-roulette-and-government-u-turn-on-tax-free-goods/, (accessed 14 October 2020).

⁹ Fish, I., *Duty-free ban a ‘staggering own goal’ for UK retail*, 12 October 2020, www.drapersonline.com/news/duty-free-ban-a-staggering-own-goal-for-uk-retail, (accessed 14 October 2020).

¹⁰ Armitage, J., *Tory mayor candidate Shaun Bailey calls on Rishi Sunak to U-turn on scrapping Duty Free for tourists*, Evening Standard, 13 October 2020.

¹¹ Office for National Statistics, *Travel trends estimates: UK residents’ visits abroad (table 3.07)*, 22 May 2020, www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/datasets/ukresidentsvisitsabroad, (accessed 13 October 2020).

¹² Ibid.

¹³ Office for National Statistics, *Travel trends estimates: UK residents’ visits abroad (table 3.10)*, 22 May 2020, www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/datasets/ukresidentsvisitsabroad, (accessed 13 October 2020).

¹⁴ DKMA, *11 Things You Should Know About How Passengers Shop At Airports*, 2020, www.dkma.com/en/images/downloads/commercial/11%20things%20you%20should%20know%20about%20how%20passengers%20shop%20at%20airports.pdf, (accessed 13 October 2020).

¹⁵ Inmarsat Aviation, *The Future Of Inflight Retail*, 2020, www.inmarsataviation.com/en/benefits/revenue-opportunities/the-future-of-inflight-retail.html, (accessed 13 October 2020).

¹⁶ Dorman, M., *Britons will spend more than £8 billion at airport duty free shops this year*, Yahoo! Finance UK, 19 June 2017, <https://uk.finance.yahoo.com/news/britons-will-spend-8-billion-airport-duty-free-shops-year-131931496.html?guccounter=1>, (accessed 13 October 2020).

¹⁷ Duty Free World Council, *Economic Impact of Duty Free and Travel Retail in Asia Pacific*, 2019, p. 9.

Recommendations:

- The government should not end duty-free purchases on some items for travelers to non-EU countries. This would further impact a sector that has been especially affected by covid-19.
- Instead, the new limits and exemptions proposed should be extended to all those who are flying to outside of the UK, irrespective of final destination.