

W A L P O L E

By email to: CEU.enquiries@hmtreasury.gov.uk

1 December 2020

Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Dear Chancellor

Tax-free shopping scheme is a success for the UK

On behalf of Annoushka, Boodles, Browns Fashion, CHANEL, Church's, ERDEM, FARFETCH, Ferragamo, Fortnum & Mason, Harrods, Johnstons of Elgin, LALIQUE, Longchamp, Mulberry, N PEAL, Paul Smith, Penhaligon's, Rupert Sanderson, Smythson, Selfridges Group, New West End Company, Association of International Retail, Value Retail, Watches of Switzerland, and Walpole we are collectively writing to ask for you to reconsider the decision to abolish the VAT Retail Export Scheme (VAT RES).

The Office of Budget Responsibility (OBR) has stated that there is significant uncertainty around the economic impact of the decision to end the scheme. Our businesses know that the OBR is right to counsel the Treasury to be cautious. The tax-free shopping scheme is an integral part of the UK's attractiveness as a tourism and shopping destination, as confirmed by the recent analysis by Frontier Economics. VAT RES has been a success for the UK, ensuring that it remains competitive as a shopping destination, directly attracting over 600,000 non-EU visitors each year and encouraging millions of others to shop more in the UK once they are here.

The scheme and the British luxury sector work hand in glove as a calling card for Global Britain. The VAT RES enables the generation of export revenue for the UK to the tune of £6 billion each year (£4.5 billion of which is from sales from the luxury sector), significantly contributing to economic growth and the strength of British homegrown businesses, supporting the creation of sustainable jobs and attracting investment by British and international brands in the UK.

Businesses in our sector have estimated that they would no longer be able to support 15-25% of jobs throughout the UK if the scheme were to end, such is its importance and success. This would mean the loss of 40,000 sustainable jobs in regional manufacturing hubs, shops and distribution centres as well as hospitality businesses. Livelihoods that the Treasury and businesses have fought hard to protect while global travel is necessarily paused to contain the virus.

Furthermore, 17 luxury and retail companies - just a small number of the whole industry - estimate that they will be forced to cut capital expenditure totalling over a £1bn over the next five years as a direct result of this decision. Retention of the scheme would secure critically important investment at a time when it will be much needed to fuel the UK's recovery.

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The VAT RES has proven to be a particular success with Chinese shoppers, enabling UK-based businesses to capitalise on their spend. Chinese shoppers already account for a third of the global luxury and high-end market and will represent nearly half of the market in just 5 years. They are highly sensitive to price, and far more likely to be high net worth and high spending. China currently accounts for 11% of British luxury export sales, and it is a key growth target for brands.

Chinese shoppers are highly mobile and two thirds of luxury consumption from Chinese shoppers is outside of China. We have evidence to show that when these customers buy products in market, they are more likely to buy from that brand again when they return home to China. They plan visits well in advance and we are already hearing from tour operators that they are asking to visit other European destinations when travel becomes easier in 2021 because the scheme is ending. Therefore, the removal of tax-free shopping will have a marked impact on the allure for this important customer and the export potential of high-end British goods in Greater China.

In summary, the VAT RES scheme supports businesses and jobs throughout the UK – providing a strong bedrock for the Government's levelling up agenda, contributes to sustainable, long-term economic growth in the British luxury and high-end sector; drives capital investment, investment in skills, and helps the UK nurture its position as a global shopping destination underlining the message that the UK is open for business.

It is with this in mind, that we strongly urge you to reconsider the decision to end the scheme and that you consider extending it to EU visitors. Our homegrown businesses and the many international businesses who have chosen to invest in their HQs, retail and hospitality spaces are incredible supporters of the UK and have shown strong commitment over the decades in making the UK the best possible place to shop in the world. They are primed to overcome the economic challenges of 2020, but understand very clearly that VAT RES is a crucial mechanism in maintaining the UK's leading market position and the viability of many businesses.

The OBR has confirmed that scrapping the scheme will only save the Exchequer an average £360m a year over the next five years. The value of the scheme far exceeds this and it is an asset for the UK.

Yours sincerely

Helen Brocklebank



Chief Executive,
Walpole

John Ayton MBE
& Annoushka Ducas MBE



Founders, Annoushka

Anthony Romano
CEO, Church's



CEO, Church's

Philippa Nixon



CEO, ERDEM

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Lance Patterson

Chief Executive,
Penhaligon's

Simon Cotton

Chief Executive,
Johnstons of Elgin

Rupert Sanderson

Rupert Sanderson,
Founder

Godfrey Davies

Chairman, Mulberry

Jace Tyrrell

Chief Executive,
New West End Company

Paul Barnes

Chief Executive,
Association of
International Retail

James Lambert

Deputy Chairman,
Value Retail

Michael Ward

Xavier Rougeaux

Chief Executive Officer
Smythson

Frederick Fischer

LALIQUE, Managing
Director

Brian Duffy

Chief Executive,
Watches of Switzerland

Holli Rogers

Chief Executive,
Browns Fashion,
Chief Brand Officer
FARFETCH

Ashley Long

Managing Director,
Paul Smith

Anne Pitcher

Group Managing
Director,
Selfridges Group

Hector Cassegrain

Managing Director Longchamp UK &
Ireland

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Corinne Ortega

Adam Holdsworth

Olivier Nicolay



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Region EMEA Director,
Ferragamo

Chief Executive,
N PEAL

Managing Director, Chanel

Michael Wainwright

Ewan Venters



Ewan

Managing Director,
Boodles

Chief Executive, Fortnum & Mason