What Brexit might mean for UK travel

ABTA
The Travel Association

Deloitte.

Foreword

The UK public will soon have an important decision to make:
"Should the United Kingdom remain a member of the European Union or leave the European Union?"

As this national discussion unfolds, individuals will approach this question by considering many factors – personal, professional, and economic – before casting their vote.

Harnessing the experience of the ABTA Membership, ABTA and Deloitte have considered what a vote to leave the European Union might mean for UK travel businesses, and the UK travel consumer. No one knows for certain what a post-EU UK would look like, as there is much uncertainty as to what settlement might be reached. It is possible, however, to assess how the existing UK relationship with the EU has affected UK travellers and the UK travel industry, and what would be the likely impact of a "leave" vote on consumer confidence, expectations, and behaviour, as well as on the industry.

This report's aim is to provide travel businesses and the travel consumer with facts and assessments to help inform the discussion of what a vote to leave the EU might mean for UK travel.

This report also contains an appendix of the most pertinent questions that ABTA and Deloitte believe travel businesses should consider in relation to Brexit.

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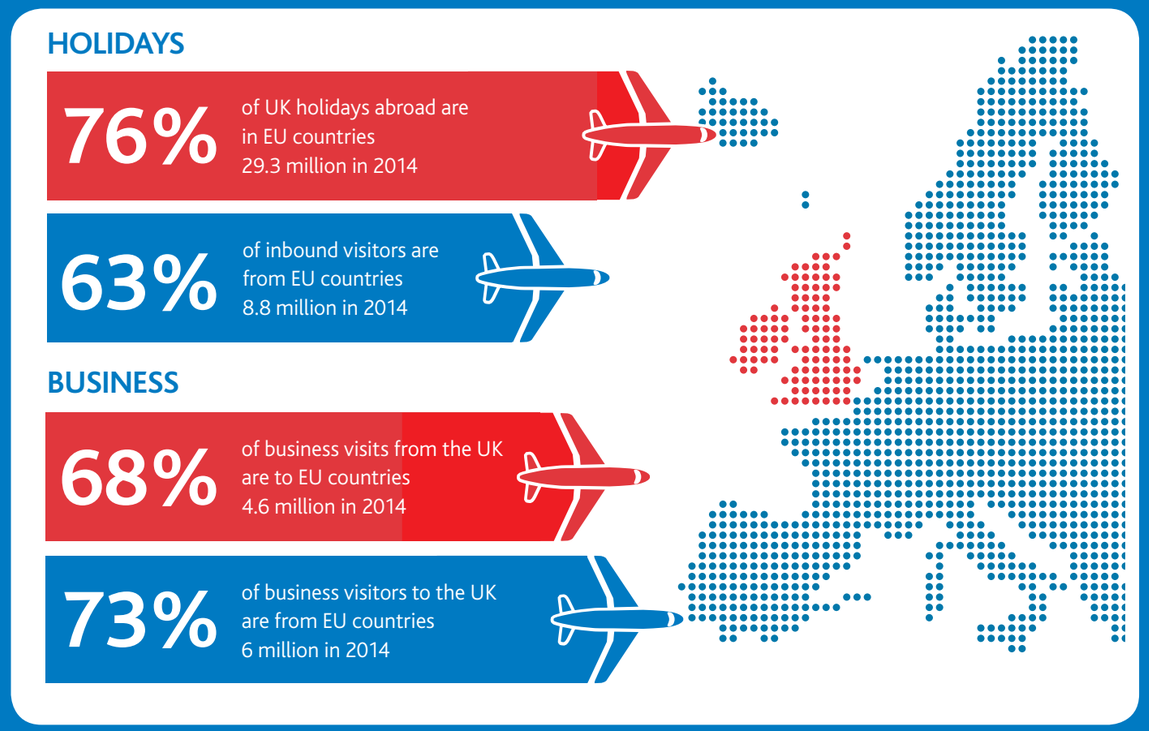
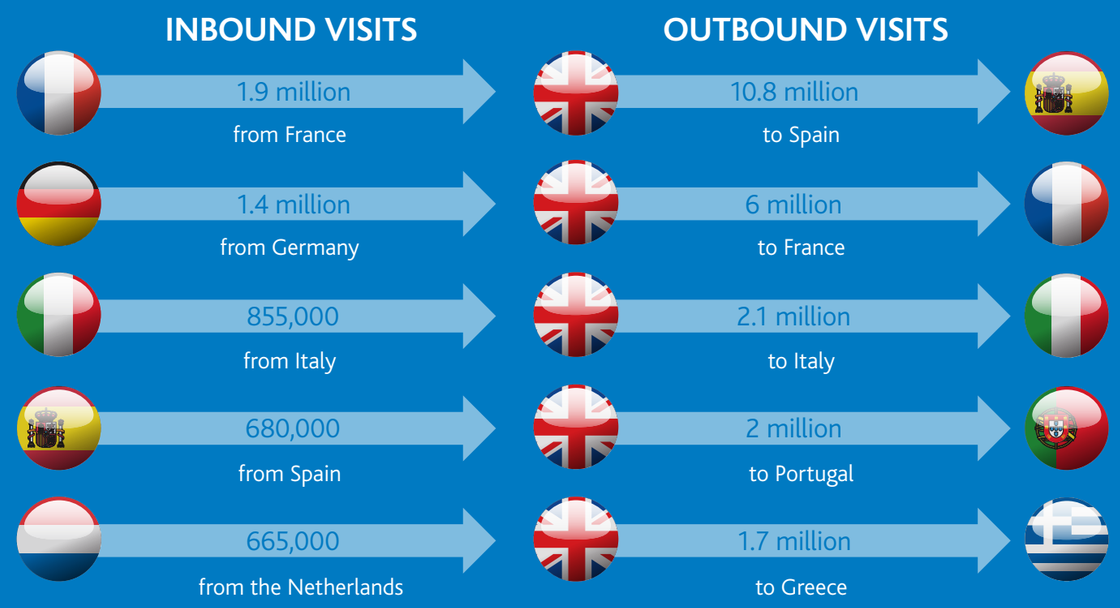
KEY FINDINGS

1. There are strong travel and tourism flows between the UK and EU. The EU is the main destination for UK tourists, and the main source market for overseas tourists coming to the UK. Tourism and travel trade between the UK and EU has been facilitated by the free movement of goods and services, investment and people across the EU. A Brexit could jeopardise this free movement, and affect the flow of trade and travel.
2. In the event that the UK votes to leave the EU, there is a high likelihood of uncertainty during the negotiation period immediately following the referendum. This could last until a replacement set of trading relations and regulations were in place, which could take several years.
3. In the event of a Brexit, the value of sterling could be impacted. The extent to which operating from outside the EU would increase costs for the travel industry would depend largely on the agreements the industry would adopt and the ease at which it could transition to the new arrangements.
4. In the event of a Brexit it is likely that EU-originating regulations that benefit and protect travelling consumers would need to be replaced with parallel UK-originated regulations to ensure that consumer confidence is maintained.
5. The travel and tourism sectors employ a significant number of immigrants. Any changes limiting the sector's ability to recruit or employ foreign nationals, including those from the EU, could challenge many travel and hospitality businesses in filling a number of roles , especially given the current levels of UK employment and existing skills shortages.
6. The UK travelling consumer could be faced with increased costs if an exit vote led to a sustained deterioration in the value of sterling, making foreign currency destinations more expensive in sterling. Consumers would also need to cover any additional health insurance costs, should the UK exit the European Health Insurance Card scheme.

Travel between the UK and EU



Top 5 EU travel destinations and markets



Source: DNS Travel Trends 2014

The UK economy and the EU: An economic overview

UK CONTRIBUTION TO EU BUDGET

- In 2014, the UK's net contribution to the EU was around £9.8 billion, which equates to 0.6% of UK GDP.
- The contribution for 2015 is forecast to be £8.5 billion.
- The UK covers 12.6% of the total EU budget and is the third largest contributor.

Sources: HM Treasury 2015 and OBR 2015

MOVEMENT OF GOODS & SERVICES

- Around half of total UK exports are accounted for by EU countries, making it the single most important market for the UK.
- 53% of total UK imports come from the EU, making it a net importer.
- UK trade in services has consistently run a surplus since 2005. This reached £15.4 billion in 2014[1].
- UK imports from the EU make up around 10% of total EU exports, making it the third largest importer of European goods and services after Germany and France.

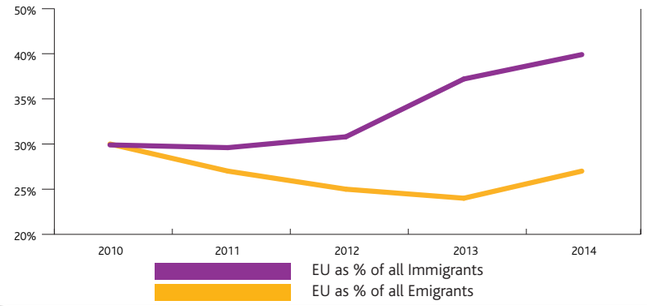
MOVEMENT OF PEOPLE[2]

- In 2014, almost 40% of total work-related immigrants to the UK were EU citizens.
- EU citizens make up 5.9% of the total UK workforce.
- In 2014, 27% of all UK emigrants migrated to EU countries for work related engagements.

ACCESS TO INVESTMENT[3]

- EU countries contributed 48% of the total UK inflow of FDI.
- In 2014, the UK was the most important FDI destination in Europe, receiving $35 billion in capital investment.
- EU countries accounted for 40% of UK FDI outflow.

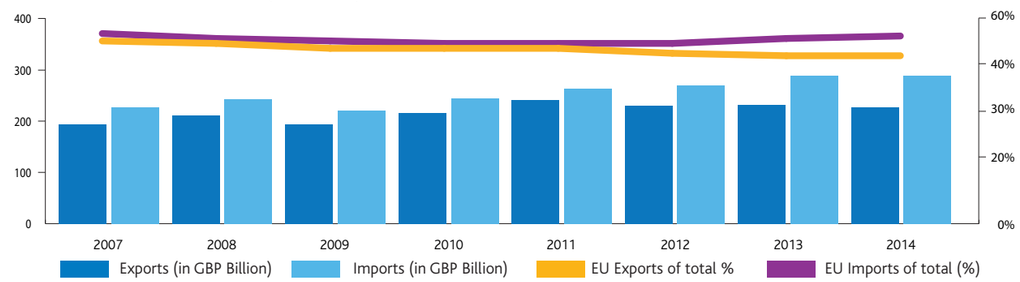
Work related migration to and from EU countries



Source: [1] Office of National Statistics (ONS), June 2015, [2]ONS Migration Statistics Quarterly Report November 2015, [3] The fDi Report 2015

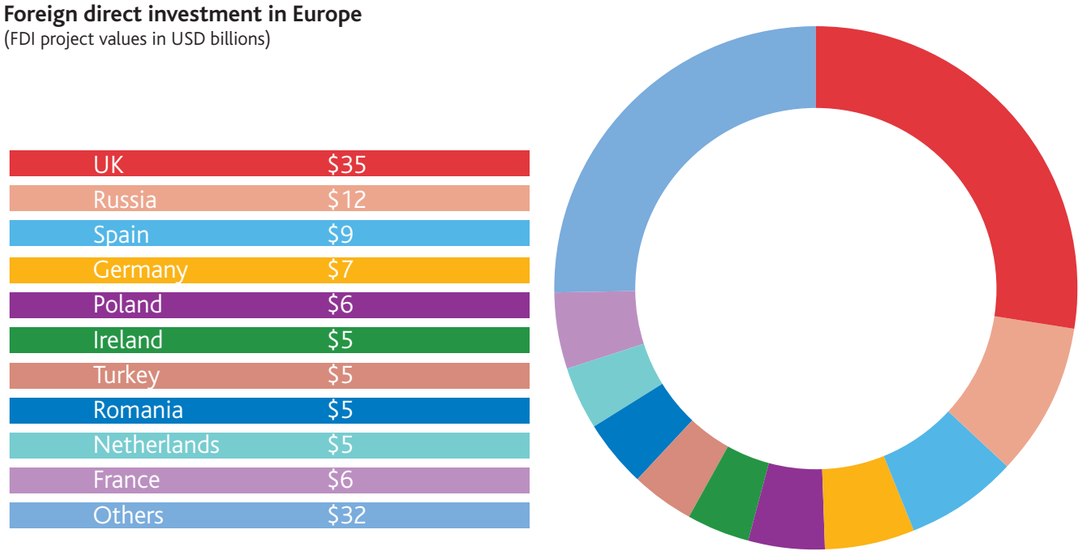
[4]ONS, November 2015.

UK Trade with EU countries (2007-14)



Source ONS

Foreign direct investment in Europe
(FDI project values in USD billions)



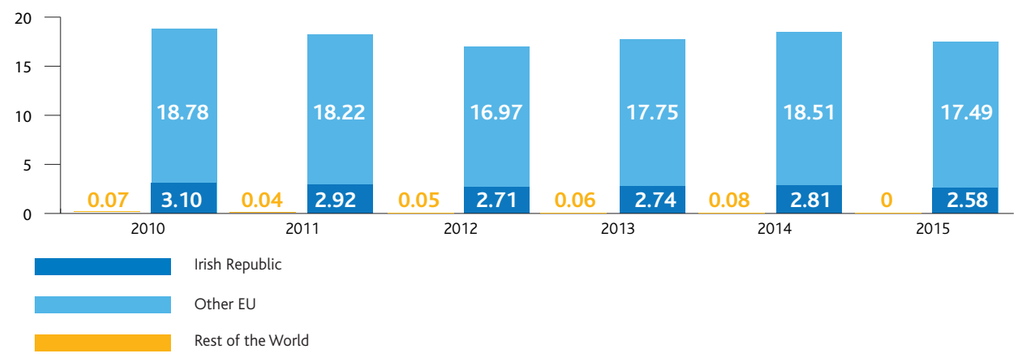
Source: The fDi Report 2015

The UK economy and the EU: Travel impacts

PASSENGER FLOWS BETWEEN THE UK AND EU COUNTRIES

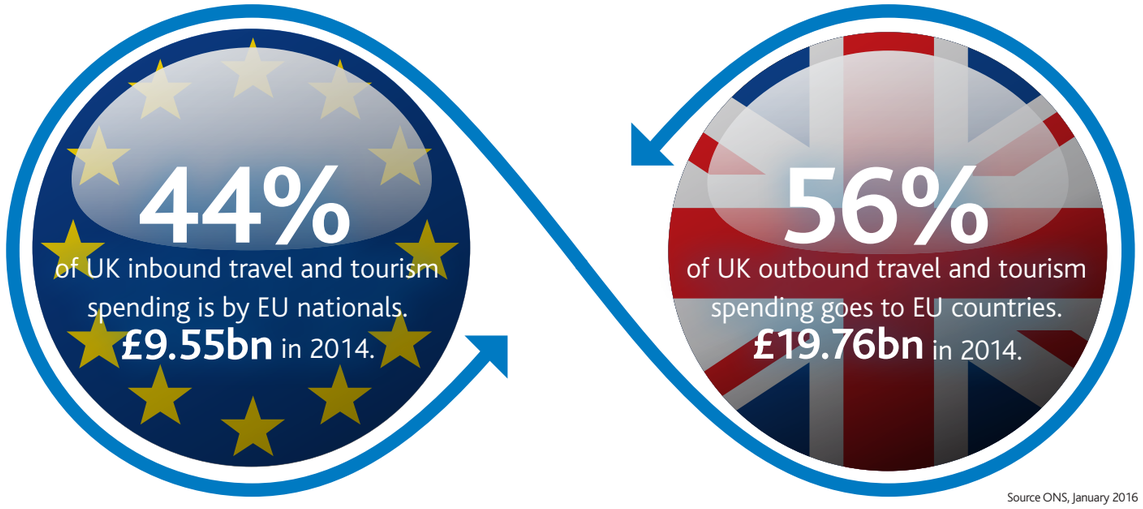
In passenger transport, maritime and aviation are particularly reliant on passenger flows between the UK and other EU Member States. In maritime transport, EU countries contribute over 85% of the total passenger traffic to UK ports. In aviation, travel to EU destinations accounts for 64% of the UK passenger outbound flow.

UK International sea passenger movement, arrival and departure for EU countries and rest of the world (Number in millions)



Source: Department for Transport 2016

TRAVEL EXPENDITURE BETWEEN THE EU AND THE UK



Source ONS, January 2016

CASE STUDY: COULD BREXIT IMPACT TRAVEL TO BRITISH HOMES ABROAD?

The free movement of people across the EU has contributed to frequent travel between Member States and the decision by many UK citizens to take up property in countries such as France, Spain, and Portugal, either as their main or second home.

There are an estimated 1.3 million UK nationals living elsewhere within the EU. In 2014, more than 8.7 million visits were made by UK residents visiting friends and relatives (VFR) in other EU countries. VFR traffic is vitally important in ensuring the economic feasibility of many air routes.

The emergence of low cost airlines has increased competition and helped to cut prices for consumers in the airline industry. As the cost of travel has reduced, consumers have been able to take more frequent trips and in some cases even commute between two different European countries.

"The low cost airlines have helped to create huge social change in travel behaviour and it has been a big benefit to the consumer", says Andrew Swaffield, the CEO of Monarch Group, the parent company for the UK based low cost carrier Monarch Airlines. "We estimate that we fill circa 2 million seats a year with travellers that travel between the UK and their homes in Europe. We see a huge number of travellers with British names travelling with us one way between the UK and key European destinations".

If the UK were to exit the EU, Monarch would view the outcomes for the travel sector as very negative, not least because of the uncertainty that would follow in the aftermath. "This sweating period after the exit would be very damaging for the sector. [An exit] would most likely lead to higher air fares and fewer scheduled flights between the EU and UK. It could also bring an end to the European Health Insurance Card and shared tax laws that benefit many British home owners and expatriates living in the EU."

Source: Interview with Andrew Swaffield, CEO, Monarch Group

KEY FINDING

There are strong travel and tourism flows between the UK and EU. The EU is the main destination for UK tourists, and the main source market for overseas tourists coming to the UK. Tourism and travel trade between the UK and EU has been facilitated by the free movement of goods and services, investment and people across the EU. A Brexit could jeopardise this free movement, and affect the flow of trade and travel.

Brexit: How would it work?

In the referendum, the choice is between a known, if evolving, relationship between the UK and the EU, and the unknown position of the UK outside the EU.

If the UK were to stay in the EU, the country would adopt the redefined terms of membership as negotiated by the Prime Minister and apply the required changes to policies and practices. The UK's renegotiated EU settlement stipulates that the UK will not take part in further political integration in the EU, makes future UK contributions toward eurozone monetary measures voluntary, limits some immigrant benefits, sets a target for reducing the "burden" of regulation, and includes a commitment to strengthen the internal market. While most of these apply to the economy as a whole, in the event of a vote to stay in, businesses, including those in the travel sector, could see some changes in the level of bureaucracy. Meanwhile, the UK travel sector could continue to influence EU policymaking through the established channels.

In case of a vote to exit, Article 50 of the Treaty for the European Union remains the only formal process for a Member State to resign its membership. If the UK public were to vote "leave" and the UK Government invoked Article 50, this would commence up to two years of negotiations among the remaining EU Member States to agree the terms to be offered for a continued trading relationship with the UK. The UK could not take part in these negotiations. If the two year timeline elapses, this can be extended with the unanimous agreement of the EU Member States. If no extension is agreed, the UK could revert to a basic set of trade rules pending further negotiations outside of the Article 50 provisions. However, given that no other Member State has left the European Union prior to this, it is unclear how the process invoked by Article 50, or any other exit scenario, would work in practice. Uncertainty is thus likely to prevail during this period, while the EU Member States decide an approach without any influence from the UK.

There are various examples that have been discussed as possible alternatives to EU membership. However, the detail of any future trade deals would require the agreement of the EU and, consequently, whether any proposed deals would be feasible or desirable options for the UK or the remaining EU countries would be a matter for all concerned following a "leave" vote. As shown below, most of the existing models still require a budget contribution and compliance with a large proportion of EU regulations.

POSSIBLE SCENARIOS AND CURRENT SUBSCRIBERS

CURRENT EU OBLIGATIONS		EU MEMBER 28 European Member Nations	EUROPEAN ECONOMIC AREA Norway, Lichenstein, Iceland	FREE TRADE AGREEMENTS (EFTA) e.g. Switzerland	MOST FAVOURED NATION e.g. Australia
FREE MOVEMENT OF GOODS, SERVICES, PEOPLE AND CAPITAL		✓	✓	✓ Some conditions apply to Swiss migration	✗
FREE TO NEGOTIATE TRADE DEALS & SET TARIFF LEVELS WITH NON EU COUNTRIES		✗	✓	✓	✓
EU LAWS & REGULATIONS	INFLUENCE	✓	– Slight/Indirect	✗	✗
	COMPLIANCE	✓	✓	✓ But some opt outs	✗
FISCAL CONTRIBUTIONS		✓	✓ e.g.Norway pays 83% of full rates	✓ e.g. Switzerland pays 40% of full rates	✗

→ LOOSER TIES WITH EU

Source: Deloitte analysis

KEY FINDING

In the event that the UK votes to leave the EU, there is a high likelihood of uncertainty during the negotiation period immediately following the referendum. This could last until a replacement set of trading relations and regulations were in place, which could take several years.

Brexit: Regulatory impacts

There are differing views on the size and scale of UK regulation that comes from the EU. The House of Commons Library estimates that 6.8% of primary UK legislation, and 14.1% of secondary legislation, stems from the EU; others have argued this figure is a significant underestimation. However, it is not certain that Brexit would guarantee widespread deregulation.

Laws implemented through EU Regulations, such as Regulation 261/2004 on Air Passenger Rights, are directly applicable in EU Member States without the need for national laws. Unless specific action was taken, EU Regulations would fall away in the event of Brexit. However, laws implemented through EU Directives, such as the Package Travel Directive, require transposition in the form of specific national legislation, which would remain in place. Removing EU laws implemented through Directives would thus require a clear commitment by Government to undertake deregulation on a hitherto unprecedented scale.

The future regulatory appetite, and indeed regulatory capacity, of the UK Government is itself an important factor of consideration. However, in the event of the UK leaving the EU and all current EU Regulations falling away, it is likely that the UK Government would be faced with very difficult decisions in many areas when seeking to balance the interests of consumers and business, as well as future trading partners, many of whom would be EU Member States.

There could be pressures in terms of the volume of regulatory work required to renegotiate agreements and draft future policies. In formulating future regulation, there would also need to be an awareness of wider international laws and any potential negative effects on international trade.

In many cases, UK policymakers and the travel industry have been influential in defining the terms of existing EU laws. If Brexit were to occur, the UK would have little if any, influence over EU laws and rules as it would no longer participate in negotiations within the EU legislative process.

In travel and aviation, many of the existing EU laws and regulations have either followed or been forerunners in setting wider international regulations or terms of cooperation. A recent example in the travel sector is the EU-US Open Skies Agreements (see next section). Should the UK want to continue to trade with other major nations, it would most likely need to sign up to similar bilateral agreements.

Regulatory impacts: Travel businesses

EMPLOYMENT & OPERATIONAL

The EU's freedom of movement principle, enshrined in the Treaty for the European Union (TFEU), guarantees the rights of individuals from EU Member States to live, travel around, and work in other EU Member States.

While the UK has not entered the EU's border-free Schengen Area, nor agreed to share common visa rules and processes, it does enable other EU citizens to enter the UK without restriction. This has had significant impacts on the industry in relation to employment, where the industry relies heavily upon a high proportion of non-UK workers.

The EU has also implemented an extensive social chapter of employment and social rights. For example, the EU's Working Time Directive stipulates maximum working hours and establishes minimum periods of paid leave for contracted workers. While the costs of complying with social regulations are often cited in Brexit discussions, it should be noted that employee rights are well established in the UK, and the UK Government has gone beyond minimum EU rules in many areas. Therefore, it is unclear whether Brexit would radically alter the balance between employers and employees.

Particularly relevant to the outbound travel industry, the EU has ensured consistent rules for employers and employees when operating or working across the EU, as laid down by the Posted Workers Directive and further facilitated by other laws such as the Recognition of Professional Qualifications Directive. The future applicability of these rules, and similar legislation which has simplified operations and enabled cross-border operations (e.g. work visas) would likely be dependent on the outcome of negotiations on a future UK-EU relationship.

Furthermore, there are regulations dealing with the interoperability of transport systems across the EU. For example, Single European Sky is a set of four regulations designed to ensure the smooth operation of flights, increase efficiency, and reduce delays within European airspace. There is also comparable legislation in place for rail and maritime operations. Given the importance of transport, and especially aviation, to the UK economy, it is likely the UK would prioritise continued cooperation in these spheres in the event of Brexit. However, whilst trade deals could be reached with the EU to enable continued market access and regulatory compliance, by leaving the EU the UK would lose its influence in shaping future regulation.

The EU's aviation industry is one of the most liberalised in the world. There is significant collaboration between EU Member States to facilitate operation of an internal market for aviation, which guarantees EU airlines the right to operate point to point air routes within the EU. These rules are enshrined in Article 119 of the TFEU. In addition, the EU has negotiated Open Skies agreements, which are effectively bilateral agreements with EU countries acting 'as one' in agreeing rules with third countries. The best known of these agreements is the EU-US Open Skies agreement of 2007. However, in the event of Brexit, the UK would need to negotiate with the EU on whether current arrangements could continue or new agreements would be needed to replace these rules.

TRADE & TAXATION

In the event of Brexit, the UK might no longer be part of the EU's Customs Union, which governs tariff-free trade within the EU single market. As a result, current rules around VAT and the Tour Operators Margins Scheme (TOMS) would be in doubt.

Following a Brexit, the UK would have the option to adopt a system similar to TOMS, not apply VAT to any travel services that take place outside the UK or apply VAT to all outbound tourism sold by UK tour operators. While the first option might cause the least change to current practises, it is still likely to require significant efforts to formulate and implement.

Although Air Passenger Duty (APD) is not a European Union tax the approach to applying this could yet change in the event of Brexit. Under the EU provision of free movement of people until now connecting passengers in the UK have been exempt from APD. If a Brexit were to happen in the UK, it could have more flexibility to apply APD to connecting passengers and also use different rates of APD on domestic and international flights.

While no longer being bound by EU tax harmonisation might enable the UK to implement competitive tax policies, the position of UK businesses vis-à-vis their European counterparts could be reduced. Regardless of whether Brexit occurs, the UK would still have to be compliant with OECD principles which play a crucial role in driving global as well as EU tax laws. The agreements with the EU will then determine whether UK businesses could benefit or face additional barriers to trade when dealing with EU countries.

KEY FINDING

In the event of a Brexit, the value of sterling could be impacted. The extent to which operating from outside the EU would increase costs for the travel industry would depend largely on the agreements the industry would adopt and the ease at which it could transition to the new arrangements.

Brexit: Consumer impacts

Many consumer protection issues, such as financial protection, health cover, and mobility, are all subject to EU regulation. As such, Brexit could potentially have a significant impact on many pieces of legislation that impact UK leisure and business travellers.

1. Roaming Fees

The EU has recently introduced caps for mobile phone roaming charges, harmonising the maximum charges applicable to consumers for using their phones in other EU countries, and will extend this to a complete ban on additional roaming fees in April 2017. As a Regulation (531/2012), the law applying these rules would be removed by Brexit, unless the UK Government acted to ensure it remained on Statute.

2. Package Travel Directive

When booking package travel arrangements within the EU, this Directive offers consumer protection in cases of insolvency or where there is a failure to perform contracted services. As a Directive, this legislation would remain in place, unless subject to deregulation, although there might be some negotiations required to ensure reciprocal arrangements with EU.

3. Freedom of Movement

While the UK retains passport controls and sits outside of the border-free Schengen Area, UK consumers are able to travel freely within much of Continental Europe and EU citizens only experience basic border checks entering the UK, and vice versa.

In Brexit travel requirements for UK-EU travel would depend on the settlement reached. However, it is worth noting that for travel outside of the EU, the UK would be able to seek new bilateral visa agreements with non-EU countries.

4. European Health Insurance Card

The EHIC is available to all EU residents and guarantees the holder access to local health services on the same terms as those available to locals. EHIC arrangements currently apply to all EU and EEA countries. In the event of Brexit, applicability would be subject to negotiations. Limiting UK travellers' local health care access could have cost implications for travel insurance premiums.

5. Consumer Rights Directive

This Directive is implemented in the UK through the Consumer Rights Act 2015, and underpins many important areas of consumer protection across the EU, such as clear pricing rules, information requirements and a 14 day consumer right of withdrawal for many purchases of goods and services.

6. Passenger Rights

In the event of Brexit, passenger rights regulations across all modes of travel, the best-known of which is 261/2004 for compensation in cases of denied boarding or significant delays for air travel, would be removed from the UK's Statute book, unless the UK Government took steps to replicate these in UK law. It is important to note that UK consumers are very aware of this piece of legislation and it is likely there would be calls from consumer groups to introduce comparable laws. It is also notable that, under existing rules, UK courts have often found in favour of consumers.

KEY FINDING

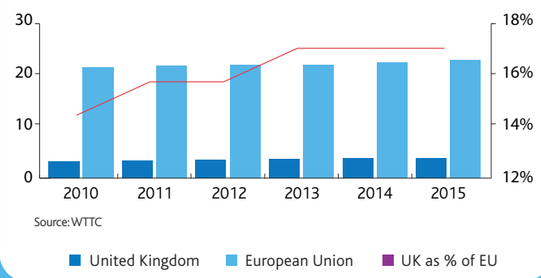
In the event of a Brexit it is likely that EU-originating regulations that benefit and protect travelling consumers would need to be replaced with parallel UK-originated regulations to ensure that consumer confidence is maintained.

Brexit: Impacts for travel employment

BREXIT IMPACT ON TRAVEL AND TOURISM EMPLOYMENT

The UK economy benefits notably from the employment opportunities the travel and tourism sector[5] offers. In 2014, the sector contributed 4.23 million jobs in total, with 1.89 million people being directly employed in the industry. The contribution is forecast to continue to grow.

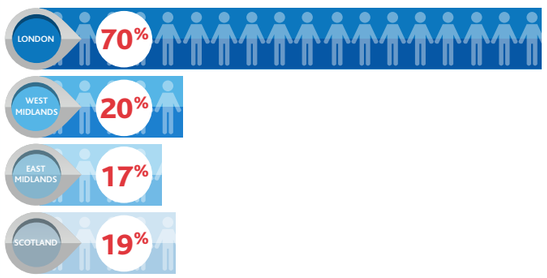
DIRECT CONTRIBUTION (%) OF TRAVEL & TOURISM SECTOR EMPLOYMENT



Source: WTTC

The travel and tourism sector attracts a transient workforce due to the flexible work it offers. The sector increasingly employs migrants from the EU Member States given the strong supply of staff with the right skills at competitive prices. The free movement of people facilitates easy and cost effective hiring processes and helps the sector increase capacity quickly as demand in peak times has ramps up. Some regions have a particularly high dependency on immigrant labour in the sector.

REGIONAL DEPENDENCY ON MIGRATION WITHIN TRAVEL AND TOURISM[6]



Source: People 1st Survey 2015

If a Brexit were to occur, the travel sector could be faced with higher costs in recruiting and retaining staff from other EU countries. The sector could also lose some of the longer term investment it has made in skills if employees working rights are restricted or they are forced to leave. The magnitude of these costs cannot be estimated at this stage, as they would depend on the circumstances of the employees and travel businesses concerned, as well as the deal reached between the UK and the EU.

Recruiting such large quantities of workers from the domestic labour market might prove difficult, especially given the current low levels of unemployment in the UK and high level of skills shortages[7] in the sector. According to the UKCES Employer Skills Survey 2015, the transport and communication sector already ranks third in terms of density of skill shortage. Similarly, a survey by People 1st highlights that in some parts of the travel and tourism sector, nearly half of the vacancies are hard-to-fill.

TRAVEL AND TOURISM SUB-SECTOR	PROPORTION OF HARD-TO-FILL VACANCIES[8]
Self-catering accommodation	49%
Food and service management	44%
Hotels	42%
Events	42%
Restaurants	38%
Pubs, bars and nightclubs	33%
Tourist services	28%
Visitor attractions	22%

Source: People 1st Survey 2015

Restrictions on employing EU nationals might thus exacerbate existing skills shortages. Ultimately this could have a detrimental effect on the sectors' ability to serve consumers at the standard they expect.

KEY FINDING

The travel and tourism sectors employ a significant number of immigrants. Any changes limiting the sector's ability to recruit or employ foreign nationals, including those from the EU, could challenge many travel and hospitality businesses in filling a number of roles , especially given the current levels of UK employment and existing skills shortages.

[5]The travel and tourism sectors defined in this report include broadly passenger transport, hospitality, food services and tour operations.

[6]People 1st, 2015. The skills and productivity problem. Hospitality and tourism sector.

[7]Skills shortage occur when employers face insufficient number of candidates with the required qualifications and skills to fill a vacancy.

[8]A hard-to-fill vacancy is generally defined as a vacancy that an employer struggles to fill due to not finding suitable applicants for with the skills, qualifications or experience to do the job.

Brexit: Impacts on investment and currency

BREXIT IMPACT ON TRAVEL INDUSTRY INVESTMENT

While the correlation between FDI and the EU is difficult to determine, as investment decisions are dependent on various factors including business and regulatory environments, if FDI volumes were to reduce following a Brexit the UK travel sector would not be protected from the impact of this reduction.

Decision making by any country investing in the UK could also be delayed as a result of the uncertainties arising from a Brexit, especially in the short to medium term.

CASE STUDY: INWARD INVESTMENT IN THE TRAVEL SECTOR

It is difficult to estimate the total inflow of EU FDI to the UK travel and tourism sectors as such statistics are often not available. However, examples of key mergers and acquisitions in the industry provide a flavour of the importance of such investment.

In 2010 an acquisition was made of Arriva, a UK based operator of bus, coach, ferry, train and trolleybus services by Deutsche Bahn, the German transport and logistics company[1]. The deal was worth £1.59 billion and aimed at strengthening Deutsche Bahn's position in Europe by targeting the continent's fast growing and increasingly liberalised transport markets in which Arriva already had a foothold.

In 2014, TUI AG, the German travel company, and TUI Travel Plc merged to create the world's largest travel and leisure company, TUI Group. In a recent interview the former CEO of TUI AG, Peter Long, stated they would not have "created a pan-European company had we not been in Europe. The complexities of two cross-border mergers [mean it] would not have happened."[2]

While Brexit could directly impact EU to UK FDI, it could also have an indirect effect on FDI from outside Europe. Given increased uncertainty over regulation and future trade relationships, the risk of business disruption could also impact investment by other key FDI source markets. These include the US, China and the Middle East, that have recently funnelled significant investment in the UK travel sector.

Sources: [1] BBC News (22 April, 2010). Arriva agrees to takeover by Deutsche Bahn, [2] Travel Weekly, (15th Feb) 2016, Long speaks out on security and says 'Tui would not exist without EU'.

THE CURRENCY EFFECT

Some institutional analysts have recently re-evaluated their prior forecasts for sterling, given the intensifying debate around Brexit. In January 2016, JP Morgan cut its sterling to dollar exchange rate forecast to 1.32 from 1.45 and the euro to sterling rates have been revised to 0.78 from 0.71[11]. In a similar move, Credit Suisse has also revised its three and twelve month forecasts for sterling to -5.8% and -8.2% against the dollar, and -10.0% and -8.7% respectively against the euro, stating the fear of Brexit as one of the three major reasons for the devaluation[12].

While a weaker sterling might be beneficial for the UK in terms of its overall export attractiveness, as a net importer from the EU it would impact the prices of imported goods in the UK. If the weakening is notable and prolonged, it could have an inflationary impact on the UK economy.

From the travel sector's point of view, inbound travel from the EU and the US could potentially benefit from a weaker sterling. However, outbound travel might experience the reverse, as travelling to these countries would become more expensive for UK consumers, reducing their purchasing power and squeezing holiday budgets.

[10]The Deloitte CFO Survey, Q4 2015
[11]Pound Sterling Live, 21 January 2016
[12]Pound Sterling Live, 17 January 2016

Brexit: Impacts on business and consumer confidence

BREXIT IMPACT ON BUSINESS CONFIDENCE

As the analysis and debate around Brexit intensifies, UK businesses are beginning to assess the potential impacts. While businesses know Brexit is something that they need to prepare for, there are still too many uncertainties to do so effectively. This is reflected in the Q4 2015 Deloitte CFO survey, which found that more CFOs thought it was too early to say whether it was in the interest of business to remain in the EU compared to two quarters ago. At the same time the survey saw CFO appetite for risk declining and more were adopting defensive strategies[10].

As the referendum approaches, organisations will want to avoid unnecessary effort or costs of planning for an uncertain outcome. Businesses in the travel sector might feel it is better to ease off and focus on monitoring the situation. However, this could be detrimental as it would mean that in case of Brexit, these businesses would have to reactively formulate plans under tight timescales.

BREXIT IMPACT ON CONSUMER SPENDING

It is difficult to foresee how the travelling consumer would react to Brexit in the immediate aftermath of the vote. Trade negotiations between the UK and the EU are likely to span over a number of years, and the related uncertainty could affect consumers' propensity to travel during this period.

Even if there were no changes to travel requirements, in terms of freedom of movement restrictions, consumers might worry about other issues, such as access to health care, currency fluctuations or even perceptions of the UK, when travelling to EU countries. As a result consumers might opt for other destinations, or even reduce their travel abroad altogether.

In the longer term, following a Brexit, travel is likely to become more expensive. Depending on trade agreements, new taxes and levies could be introduced, and travel businesses are also likely to raise prices in order to recoup any costs absorbed during a transition period, such as increased supplier contracting costs owing to a weakening in the value of sterling.

While spending on travel and holidays has recovered well since the recession, notable rises in travel costs could change consumers minds about the desirability of travel.

Particular industry impacts could include:

- Inbound and outbound leisure travel, as price sensitivity tends to be higher, and holidays abroad are closely linked to discretionary spending behaviours.
- Travel businesses that operate in the outbound travel market and have high exposure in the EU.
- Low cost operators with smaller margins, who require higher travel volumes to continue offering attractive prices to consumers.

KEY FINDING

The UK travelling consumer could be faced with increased costs if an exit vote led to a sustained deterioration in the value of sterling, making foreign currency destinations more expensive in sterling. Consumers would also need to cover any additional health insurance costs, should the UK exit the European Health Insurance Card scheme.

Appendix: Questions for business

The check list of questions below aims to help travel businesses to frame their assessment and planning efforts. Based on previous experience of businesses preparing for headline challenges such as the eurozone crisis and Scottish Independence, it provides a structured approach to considering the impacts on business investments and operations, and make appropriate plans for Brexit. The questions themselves are purposely broad and, in most cases, are also applicable outside the travel industry; however, their aim is to stimulate further debate and to ensure that the macro issues under each of the main headings are adequately considered by key managers in the travel sector.

Britain's influence	• What are the potential long-term up / downsides of the renegotiation and / or possible 'Brexit'? • How might an increase in British national sovereignty impact my business? • Is my industry / national position represented by think tanks or other groups in Brussels and how should we deal with any change in this situation?
Economics	• How much of my business is from EU / Eurozone markets? • Do we receive EU funding; how might that be impacted – and impact us? • What impact would uncertainty and change have on growth rates?
Strategy & Operations	• How much of my business is through foreign direct investment and how might this be impacted? • How will my operational footprint and future strategy be impacted? • How will my supply chain be impacted (in terms of both the EU and what are currently third countries)?
Tax & Legal	• What legislation continues to apply and what falls away in the event of a Leave vote? • How might changes to international trading agreements affect us? • Will international tariffs and duties change? • What will be the impact on Business systems and processes for tax reporting?
Regulation	• What have been the effects of regulatory decisions made in Brussels? • In the event of Brexit would the UK's regulatory framework for my industry change? • Would the Government push a deregulatory strategy in my industry?
Talent	• If changes are made to freedom of movement within the EU, how will this impact my business (both current and future strategy)? • What about my company's ability to attract/retain the best talent from within the EU or to deploy UK citizens within the EU?
Communication	• What should our communication lines be internally and externally? • Will these communications be affected by regulation during the referendum period? • If so, do we need to put compliance process in place?

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