

W A L P O L E

Economic contribution to the UK
and policy recommendations

HIGH-END CULTURAL &
CREATIVE INDUSTRIES

June 2019

The UK's high-end creative and cultural industries have performed strongly with the overall contribution of the sector rising 49%, from £32.2bn to £48bn in the period 2013 to 2017

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Executive Summary

Walpole is the sector body for the British luxury industry representing more than 250 member companies from the high-end creative and cultural industries with members spanning brands including Alexander McQueen, Burberry, Claridge's, Glenmorangie, Harrods, NET-A-PORTER, Rolls-Royce Motor Cars, Wedgwood and numerous small and medium-sized enterprises (SMEs), which currently make up 60% of the sector, such as Astley Clarke, Chapel Down, Ettinger, Floris, Savoir Beds and Temperley London.

Walpole member brands strive for the highest quality in all they do and their business model is based on craftsmanship; creativity; continuous innovation; impeccable customer service and experiences; strong exports and highly-skilled employment.

STRONG GROWTH AND EXPORTS

Walpole commissioned Frontier Economics to examine the economic contribution that that high-end creative and cultural industries make to the UK.

Since the last report in 2015, Walpole is pleased to report that the **UK's high-end creative and cultural industries have performed strongly with the overall contribution of the sector rising 49% from £32.2bn to £48bn in the period 2013 to 2017.**

The sector is highly export orientated with around 80%, or £38.5 billion in value terms, of what it produces destined for overseas markets, the top three being the EU, North America and China. Linked to the high-end creative industries export strength, is the soft power of the UK's luxury brands which have enormous ambassadorial

power and support the UK's reputation for creativity, entrepreneurship and craftsmanship of the UK on a global scale.

Forecast value of sales for 2019 is between £51.1 billion and £57 billion, though this is highly contingent on the outcome of negotiations with the EU.

The key performance indicators are set out opposite.

SUSTAINABLE EMPLOYMENT

The high-end cultural and creative industries also make a valuable contribution to UK employment. Currently employing over 156,000 people directly and indirectly, the sector creates opportunities for employment in dynamic jobs and creative environments in sustainable, long-term careers located in all regions of the UK. The UK luxury sector invests heavily in training and apprenticeships to ensure a pipeline of skilled workers is constantly being developed which provides opportunities for young people to enter into employment in their local area, whilst learning skills that are highly transferable.

MANUFACTURING

Importantly the high-end cultural and creative industries **make a significant contribution to developing and promoting the manufacturing capability of the UK.** Around 70% of the UK's luxury businesses manufacture all or part of their products domestically and spill over effects created by the high-end industries benefit upstream suppliers - many of whom are SMEs themselves - expertise, knowledge and skills-based clusters to feed the demand for materials by luxury businesses manufacturing in the UK.

INDICATOR	2013 VALUE	2017 VALUE
Value of sales	£32.2 billion	£48 billion
Value as percentage of UK GDP	2.2%	2.4%
Rate of growth 2010-2013 2013-2017	7.8%	9.6%
Estimated direct & indirect employment	113,000 employees	156,000 employees
Total exports	£25 billion	£38.5 billion
Direct & indirect financial contributions to Exchequer	£5.2 billion	£7.4 billion

TABLE 1: KEY PERFORMANCE INDICATORS

TRAVEL AND TOURISM

Purely focusing on the sales and employment figures understates the full economic contribution of the sector. They fail to capture the **significant interrelations between high-end cultural and creative industries and the tourism and travel industries.**

For example, the high-end creative and cultural industries make **significant contribution to the British tourism and travel industries** through the international appeal of its luxury brands, hotels, restaurants and cultural experiences which are highly influential in attracting visitors to the UK. The rise in Shopping Tourism is well documented, and **the value of sales of high-end goods to non-UK resident customers which was around £4.5 billion in 2017.**

Furthermore, investments made by the high-end industries into brands' retail experiences and surrounding environments only serves to increase the international profile, reputation and appeal of the UK, further benefiting the tourism and travel industries.

POLICY FRAMEWORK

The research that Walpole has commissioned highlights the value that the UK gains by ensuring that a suitable policy framework is in place that enables the high-end cultural and creative industries' business model to continue its growth trajectory:

The key elements of such a policy framework include:
Rule out a no-deal Brexit

Leaving the EU without a deal would jeopardise up to 20% of export revenues, equivalent to £6.8 billion a year.

Official recognition for the luxury sector

We ask policy makers for distinct sector recognition for the luxury industry. Formal Government recognition would provide the framework and the foundations to enable the future growth potential of the sector.

Strengthen the protection of intellectual property (IP)

A strong framework that allows companies to assert the originality of their products, to continue to invest in innovation, and that sanctions counterfeiters more severely would all boost the creative and cultural industries.

Protect selective distribution

The unique distribution models of this sector are fundamental to maintaining the aura of the product and the customer experience and must be reaffirmed.

Enhance digital governance

Responsible online marketing and due diligence for online service providers are key pillars of both selective distribution and IP protection and ensure a safe environment for customers.

Maintain market access

High-end industries must be able to export and expand internationally with as frictionless trade as possible. The negotiation of Free Trade Agreements to expand existing markets and open new ones post-Brexit needs to be prioritised to ensure the continued growth of the sector.

Improve the international visitor experience

By addressing visa issues, airport capacity and experience, and even shopping hours, the UK could make itself even more attractive to high-spending visitors to the UK from key markets including China, the Middle-East and USA.

The high-end creative and cultural industries are growing at a rate of 9.6% and currently employ 156,000 people directly and indirectly in the UK

I.

Introduction

Far from being frippery or somehow peripheral to the economy, Britain's high-end creative and cultural industries are renowned throughout the world and synonymous with luxury – from haute couture to high-speed cars. In terms of employment, contribution to the Exchequer and reputation, this is a significant sector within the UK economy; albeit one that can sometimes be hard to examine in aggregate, due to the diversity in the scale of businesses involved and the complexity of their supply chains.

To understand the sector in more detail, Walpole commissioned Frontier Economics to assess British luxury's precise contribution based on total earnings, direct and indirect employment, exports, and contributions to the Exchequer. Aside from giving a snapshot of the role the sector plays today, this analysis helps us look ahead to the growth potential for the high-end creative and cultural industries at time when global and regional trade is plagued by uncertainty.

The high-end creative and cultural industries are defined by a 11-sector classification that captures a range of activities:

- Luxury cars
- Designer apparel and footwear (ready-to-wear)
- Super-premium beauty and personal care
- Fine wines/champagne and spirits
- Luxury leather goods
- Luxury hotels (five-star plus)
- Luxury jewellery and timepieces
- Luxury eyewear
- Luxury portable consumer electronics
- Luxury writing instruments and stationery
- Art de la table (e.g. glassware)

1.1 METHODOLOGY

Despite their importance to the UK's overall economic activity, there is very limited official data on how the high-end creative and cultural industries actually contribute. For example, National Accounts data do not sufficiently differentiate activities within industries to isolate the high-end and luxury sub-sectors from lower-end, mass-market sectors within the same categories.

This report uses the approach adopted by the European Cultural and Creative Industries Alliance (ECCIA), of which Walpole is a founding member, and uses publicly reported results at the firm and industry level as the starting point of the analysis. Alongside company reports and financial statements, data sources include specialist sources from Bain & Company and industry survey data (notably data prepared by Euromonitor as part of its annual survey of certain luxury sectors). Methodological issues that relate to specific indicators are discussed in the relevant sub-sections. Walpole commissioned Frontier Economics to do the economic analysis of the data contained within the report.

1.2 STRUCTURE OF THE REPORT

The report is structured as follows:

- Section 2** The unique features of the high-end creative and cultural industries
- Section 3** Key economic and financial indicators 2013-2017
- Section 4** Capturing the wider economic benefits
- Section 5** The trade challenge ahead
- Section 6** Forecasts
- Section 7** Policy recommendations

The UK's high-end creative and cultural industries are forecast to continue their rapid growth in the medium term. Forecast value of sales for 2024 is between £52 billion and £60 billion

2.

The unique features of the high-end creative and cultural industries

The unique business model of the UK high-end creative and cultural industries is based on a number of key characteristics that are not always easy to define: the aura of luxury, creativity and craftsmanship, intellectual property and innovation, selective distribution and an export-oriented business model.

2.1 AURA OF LUXURY

The aura of luxury relates to the quality of the product and the perception of status and exclusivity associated with it, both in the eyes of the consumer and, significantly, amongst the wider public.

The aura, while hard to define is key to the overall customer experience of buying luxury goods and services. The aura in part draws on the cultural and traditional heritage which create the provenance of a product combined with the quality of the materials and craftsmanship necessarily to produce goods at the highest possible standards. Marketing and customer service are contributing factors to the aura of the product creating a desirable perception in the eyes of the customer and wider public through branding, packaging and communications and creating personalised experiences and relationships through customer service. Carefully managed distribution, through an established network of partners and retailers (both physical and online) plays a critical role in the aura ensuring appropriate brand adjacencies, range of product and the highest standards of customer care.

Aura, is an important differentiator for luxury brands compared to other industries who tend to compete on

price or customer experience alone. A customer knows that when buying a luxury product, he or she is accessing a very special blend of tradition, heritage, quality, creativity, service and exclusivity.

2.2 CREATIVE PEOPLE AND CRAFTSMANSHIP

The market positioning of luxury products relies on maintaining high levels of creativity, craftsmanship and quality. This requires a highly skilled workforce and a carefully managed supply chain that facilitates the distribution of quality constituent parts.

The leading luxury brands all invest heavily in attracting and developing creative talent, training and developing their skilled workforce, and developing world-class manufacturing facilities. The role of the creative director and the creative teams is essential to the overall success of high-end industries. Finding those creative visionaries, talented designers and skilled marketers requires considerable investment by companies. In very few other industries does creativity play such a key role in the success of the business.

Complimenting creativity is the role of craftsmanship. A highly skilled workforce of artisans is essential to ensure the highest standards of production and quality. The high-end industries invest significantly in formal training, apprenticeships and qualifications for their workforce, including forging partnerships with tertiary education institutions and, increasingly primary and secondary schools, to create a pipeline of talent now and for the future.

Creatives and craftspeople can do nothing without the highest quality suppliers; businesses in the luxury cultural and creative industries invest substantial resources into building relationships with their network of suppliers. Indeed, many supplier relationships span decades – a distinctive feature of the sector - and one that distinguishes it from premium and mass-market manufacturers.

In particular, luxury manufacturers value predictability in quality from suppliers over high-frequency procurement based solely on cost. The advantage of these long-term arrangements is a virtuous circle: it reduces supplier-scanning costs while increasing the incentives for suppliers themselves to maintain quality and innovate. Such enduring relationships also ensure the transfer of knowledge and skills to the next generation, preserving craftsmanship in the UK.

2.3 INTELLECTUAL PROPERTY AND INNOVATION

High-end businesses invest heavily in innovation to create new materials and methods of production, product design and functionality and in their communications. This level of innovation is central to ensuring that high-end companies can maintain their market leading position providing highly desirable and new products to delight their customers.

The benefit to the customer is always a driver of innovation in the high-end industries. Unlike other industries cost-efficiency gains through process innovation only play a contributing role for the high-end sector which places the primary driver of innovation on the benefit to the

customer and the end product – investing in innovation in materials, design and product quality.

This level of investment and innovation needs to be protected through intellectual property (IP). A company's intellectual property encompasses product development and design, particular skills and methods of production, brand identity and communications and IP plays an important role in differentiating brands and products.

2.4 SELECTIVE DISTRIBUTION

The distribution of goods and services in the high-end cultural and creative industries is an important element of communicating the aura of the product to customers. Indeed, the purchase experience, be that physical, digital or a combination of both, is an integral part of what a customer pays for and receives when making a luxury purchase.

When shopping for luxury goods, customers expect to browse a wide range of the brand's collection in the full spectrum of sizes and colour variations, have the option to have bespoke pieces created or personalise products. They expect the store design to represent the ethos of the brand and a space that showcases the products innovatively. Customers also expect attentive, knowledgeable and well-trained retail assistants and advisors who are able to expertly discuss questions and provide advice as well as support with after sales care. Similarly, customers expect the marketing and communications efforts of the brand to reinforce the luxury nature of the products and services.

As with all industries, the high-end cultural and creative sector faces a choice between managing distribution through vertically integrated structures (i.e. wholly-owned retail facilities and stores), or through selective distribution contracts with retailers, who may stock multiple brands. In practice, businesses use a variety of strategies to balance the commercial risks of managing retail operations (which may not be a core competence) and the risks associated with a lack of control over retail operations. The recognition of the principle of selective distribution enables brands to carefully select appropriate partners who will understand the importance of brand aura, the levels of quality and presentation required as well as the standards of service expected by customers.

2.5 EXPORT-ORIENTED BUSINESS MODEL

The UK's high-end cultural and creative industries have long drawn on their heritage, provenance, craftsmanship and exceptional product quality to export to global markets. In recent years, the sector has grown strongly in established markets such as the US, China and Japan and affluent and aspirational customer segments in emerging markets such as Korea. Around 80% of what the UK high end industries produces is destined for overseas markets, the top export territories being EU, North America and China (Section 3.2)

80% of what the UK high end industries produce is destined for overseas markets, the top export territories being the EU, North America and China

While exporting to these markets is an obvious mechanism, a substantial proportion of sales to customers in these territories occurs through travel and tourism i.e. customers from these markets travelling to the UK to purchase luxury products as an integral part of their travel experience. This has given rise to the phenomenon of Shopping Tourism (Section 4.1)

Linked to the high-end creative industries' export strength is the soft power of the UK's luxury brands. According to Portland Communications 2018 Soft Power Index, the UK was named the leading soft power nation ranking highly for creativity and culture amongst other things. The global desirability of brands such as Bentley, Burberry, Fortnum & Mason, Glenmorangie, Harrods or Mulberry for example, have enormous ambassadorial power for Britain and each of these brands' products says something profound about the creativity, entrepreneurship and craftsmanship of Brand Britain and its high-end creative and cultural industries.

2.6 DIGITAL

Over the past decade, the luxury sector has developed digital expertise and are market leaders in the luxury digital experience. Indeed, for some luxury brands, online channels underpin the business model and perhaps none more so than NET-A-PORTER who were the pioneers of selling luxury goods online and more recently global players, Farfetch, who have integrated the digital and physical experience providing the operating platform for large- and small-scale high-end brands. Digital is not just about ramping up ecommerce and mobile channels, digital also enables luxury brands to connect with their existing customers, reach new customers in younger age demographics and new geographies as well as better predict the needs of customers and also offer exceptional after sales support.

3. Key economic and financial indicators 2013-2017

In the four years from 2013-2017 the UK's high-end cultural and creative industries have demonstrated growth across all financial indicators and are on track to meet the forecasts as outlined in the previous edition of this report in 2015 (thewalpole.co.uk).

We assess direct contributions to the UK economy as follows:

- Value of sales
- Exports
- Employment
- Fiscal contributions

We also focus on two broader economic effects: the interdependencies between the high-end sectors and travel and tourism and employment.

The report then assesses the prospects for the sector, which will of course largely be influenced by the relationship between the UK and the European Union, once the UK has left the single market. The impact of Brexit, also means that the broader context of international trade is increasingly relevant.

3.1 VALUE OF SALES

Overall sales grew rapidly from £32.2 billion in 2013 (the last year for which data were provided in the previous report) to £48 billion in 2017. This represents an annual average growth for the combined high-end sectors of 9.6%, more than double the rate for the UK economy as a whole (around 4%). The value of sales is equivalent to

(though does not account for) around 2.4% of 2017 UK GDP, up from 2.2% in 2013.

It was projected in the 2015 edition of the 'The economic and financial contribution of high-end creative and cultural industries to the UK economy' report that sales would reach between £51 billion and £57 billion by 2019. Current rates of growth suggest this target will be met, if not exceeded, but this is heavily contingent on how the risks related to Brexit and the broader international trade environment play out, which is addressed in section 5.

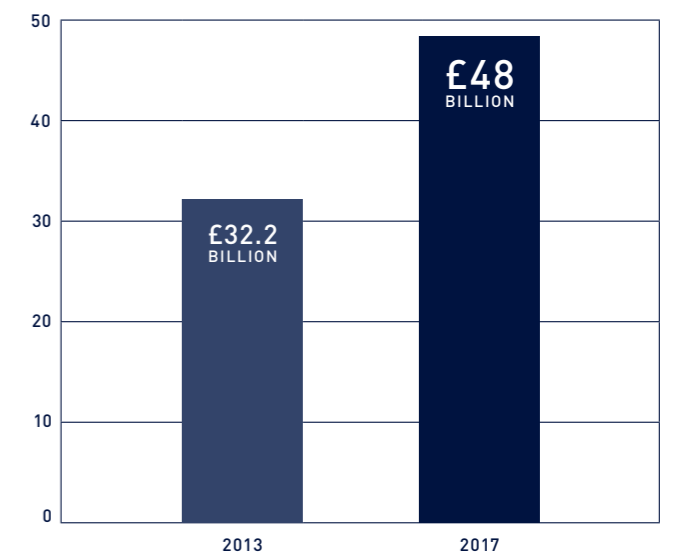


FIGURE 1. GROWTH IN SALES 2013-2017*

The breakdown of overall sales, for each subsector, and the comparison with 2013, is given in Figure 2.

INDUSTRY HIGHLIGHT

“2018 was a most successful, record-breaking year for Rolls-Royce, with growth in all our regions around the world. The home of Goodwood is acknowledged and celebrated as a global centre of luxury manufacturing excellence, where our skilled, dedicated team create the world’s finest, most sought-after luxury products.”

Torsten Müller-Ötvös, CEO, Rolls-Royce Motor Cars

Luxury automotive dominates the sales figures, and its importance to the overall high-end sector has actually grown, driven in large part by increased sales to emerging markets in Asia. The value of luxury automotive sales account for almost two-thirds of the overall value of sales in the high-end creative and cultural sectors, up from 56% in 2013 (Figure 3). Luxury cars also account for more than a third of total sales from UK car manufacturers.

3.2 EXPORTS AND TRADE

The UK’s high-end cultural and creative industries are, as a whole, strongly export-oriented. Exports in 2017 accounted for 80% of total sales, reaching £38.5 billion. High-end sector exports account for 9% of the UK’s total merchandise exports, to put that into context, cars account for 12.1% of the UK’s total exports. The key export markets are dominated by the EU 42%, North

SECTOR	TURNOVER 2017 (GBP BILLION)
Luxury Cars	31.35
Designer Apparel and Footwear	5.81
Super Premium Beauty & Personal Care	2.15
Fine Wines, Champagne and Spirits	2.08
Luxury Leather Goods	1.55
Luxury Hotels (5-star plus)	1.55
Luxury Jewellery & Timepieces	2.42
Luxury Eyewear	0.66
Luxury Portable Consumer Electronics	0.14
Luxury Writing Instruments & Stationery	0.04
Art de la table	0.30
TOTAL	48

FIGURE 2: VALUE OF SALES BY LUXURY SUB-SECTOR*

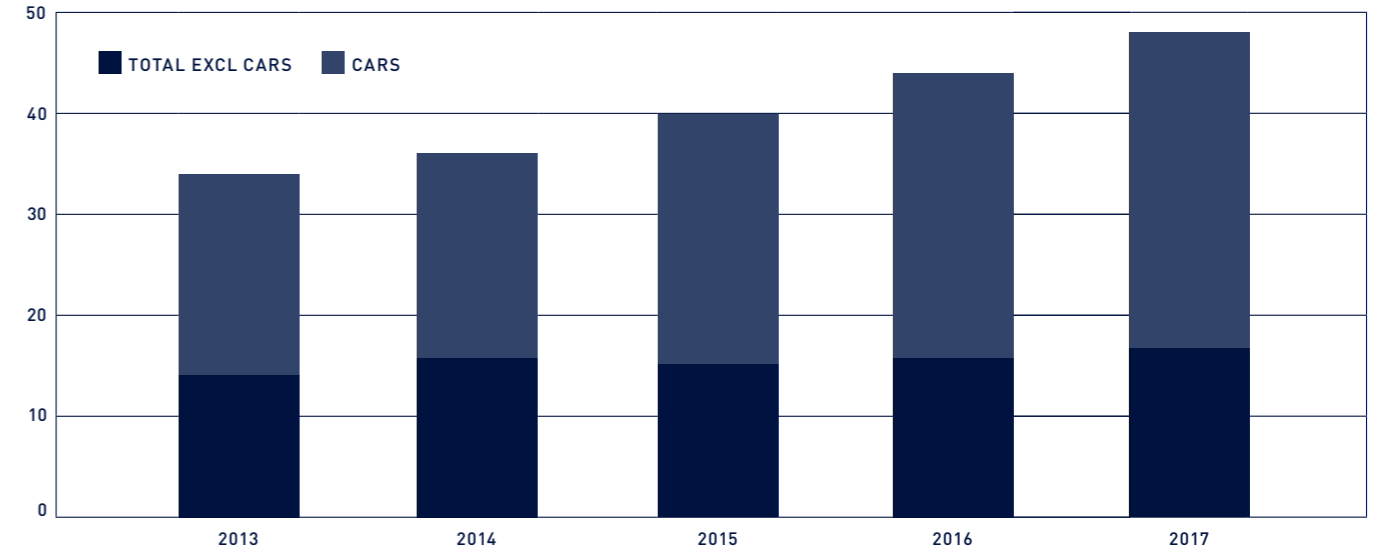


FIGURE 3: VALUE OF LUXURY CAR SALES RELATIVE TO OTHER SECTORS**

America 23% and China 11% with Other Asia, including Japan and Korea representing 9%.

As impressive as these numbers are, they may actually understate the overall trade footprint of the high-end sectors. This is because some sectors sell products in the UK (such as clothing, accessories, or food and wine) to overseas visitors and although the goods are likely exported, the transactions are technically local sales. Similarly, some luxury brands (e.g. Land Rover) have established facilities overseas to supply foreign markets, especially in China. Hence, sales of Land Rovers in China from these plants are not recorded as UK exports, even though they may have a significant impact on UK trade through the export of components or manufacturing and engineering services. The precise breakdown of exports by markets is not reported by any one source. We have therefore estimated these figures using a mixed methodology drawing on reported figures by individual producers or representative bodies and also on UN data from the COMTRADE database.¹

The overall results in Figure 4 show that the EU remains the largest single market for high-end sectors accounting for more than 40% of total exports. However, the EU

tends to be slightly less important to the UK high-end sectors than it is for UK exports as a whole. Overall, the EU receives almost half of UK total exports (49% in 2017) whereas 42% of total high-end exports are destined for the EU. Growth export markets for high-end goods include China and “Other Asia-Pacific” (including Japan and Korea) currently representing 9% of exports.

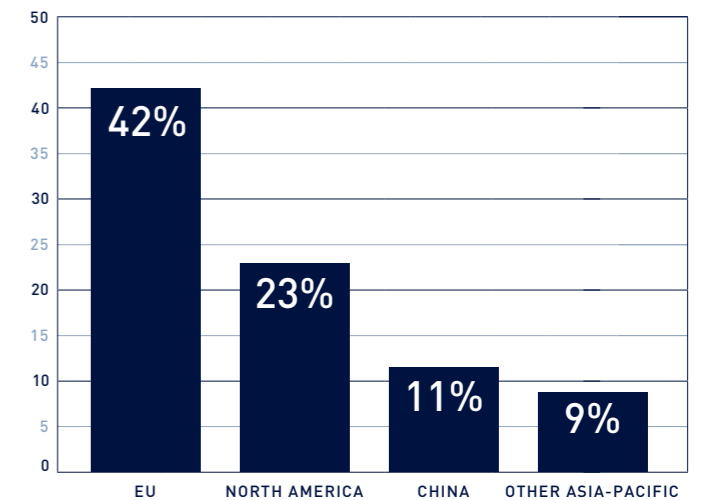


FIGURE 4: DIRECTION OF TRADE - 2017 BREAKDOWN BY MAIN EXPORT MARKETS**

INDUSTRY HIGHLIGHT

Five years ago, **Johnstons of Elgin**, the Scottish cashmere and fine knitwear brand was losing money. Today profits, sales and staffing have all increased significantly with a 58% growth in sales and 88% growth in export sales since 2012 .

Molton Brown, a luxury fragrance and beauty brand has seen great success in exporting their distinct take on British luxury internationally - particularly in India, the Middle East and Scandinavia – growing their UK export business by 30% over the last three years .

China is a key export growth market for **DAKS** with the 125-year old British luxury fashion house increasing their total number of stores in the country to 22 in 2018.

In 2018, luxury menswear and accessories brand **dunhill** opened six new stores: three in China; a new Middle Eastern flagship; a new flagship in Tokyo and a new HQ in London.

Christmas 2018 saw the best international sales for the department store **Fortnum & Mason** have had in the company's 312-year history with Fortnum's international customers spending more on gifting than ever before.

3.3 EMPLOYMENT

The high-end creative and cultural sectors are sizeable employers, especially in local and regional economies, particularly in the Midlands and North East, including Crewe, Poole, Castleford, Stoke-on-Trent, Hawick and Northampton. These sectors contribute to employment both directly and indirectly² with direct UK employment estimated to be between 130,000 and 140,000 A further 16,100 jobs are estimated to depend indirectly on the high-end sectors, primarily attributable to the supply chain that links businesses within the sector to upstream suppliers and to downstream operators. Between 5.5% to 6% of the total number of jobs created in the UK in the 2013-2017 period are estimated to be attributable to the growth of high-end sectors.

Overall employment figures are conservative as they do not include retail sales employees, which could increase the direct employment number significantly.

3.4 FINANCIAL CONTRIBUTIONS TO THE EXCHEQUER

The financial contributions made by the high-end creative and cultural industries are summarised in Figure 5, which shows that in 2017, the high-end industries contributed around £7.35 billion to the Exchequer, consisting of tax and national insurance payments of £3.15 billion and savings in the form of unemployment benefits not paid as a result of the employment created by the industries. We measure these contributions using the four metrics reported in Figure 5.

CATEGORY	VALUE IN € MILLIONS
Corporations tax revenue	2,008
National Insurance contributions	490
Income tax revenue	650
Savings from avoided benefit payments	4,202
Total	7,350

FIGURE 5: ESTIMATED SOCIAL CONTRIBUTIONS

Corporation-tax calculations are based on assumptions about company profit margins, which in turn are based on published financial statements and industry reports. Income-tax revenue is based on assumptions regarding average wages for the sector, drawing on Office for National Statistics data.

The figures for avoided benefit payments rely on assumptions about the duration of unemployment faced by employees in high-end creative and cultural sectors, should they lose their jobs. The probabilities regarding the duration of unemployment are based on findings made by the OECD. We adjusted these probabilities downward to reflect the fact that the OECD numbers were averages, and that employees in high-end cultural and creative industries were more likely, compared to the average employee, to find employment given their skills and training.

INDUSTRY HIGHLIGHT

House of Hackney, an interiors, fashion and lifestyle brand based in East London, has grown its business revenue by 90% in two years and the workforce has grown by just over 30% in the past year.

4. Capturing the wider economic benefits

Any account of the true economic contribution of the high-end creative and cultural industries needs to take into account the wider economic effects.

4.1 TRAVEL AND TOURISM

One of the most significant wider benefits of a thriving high-end sector is the spill over effects to travel and tourism. This manifests in two ways

- the consumption by tourists of high-end products whilst travelling, which accounts for a significant share of the overall consumption of luxury products and services
- the availability of high-end products and services at a destination, thus making particular locations more attractive to tourists.

Recent research from Deloitte estimates that 47% of luxury purchases globally are made by consumers who are traveling – either in overseas markets (31%) or while in transit at the airport (16%). (Deloitte *Global Powers of Luxury Goods* 2017).

The UN World Tourism Organisation has recognised and defined the economic significance of this trend as Shopping Tourism – “a form of tourism fostered by individuals for whom purchasing goods outside of their usual environment is a determining factor in their decision to travel”. It follows from this definition that attractive destinations for shopping tourists will be ones that can provide access to an overall shopping experience, which includes access to high quality products, a choice of desirable brands, retail environments, the highest level of service and the associated status of shopping in a particular destination.

We can see evidence of Shopping Tourism in the value of sales of high-end goods to non-UK-resident customers which was around £4.5 billion in 2017. Figure 6 shows the breakdown of these sales by country or region of origin. China is the single largest source country of international travellers purchasing high-end products. The US and the countries of the Gulf Cooperation Council (GCC), at 13% and 12% respectively, each account for a greater value of sales than EU residents.

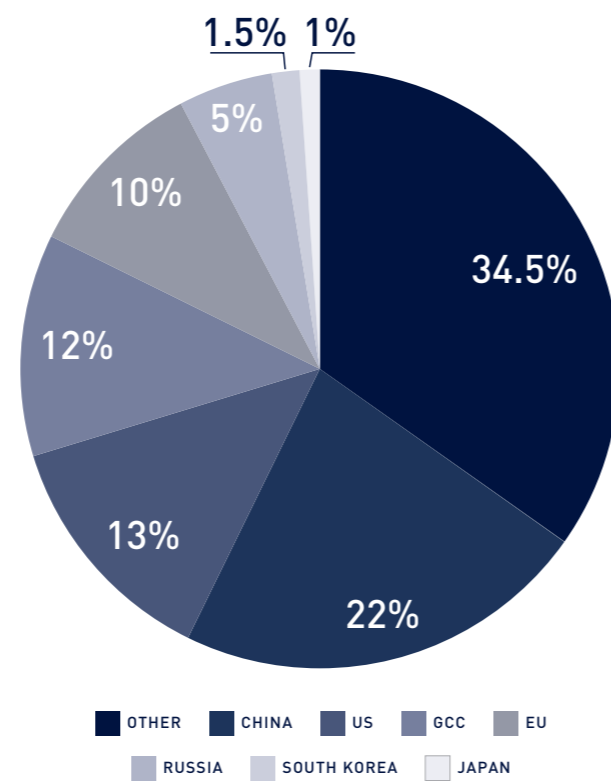


FIGURE 6: COUNTRY OR REGION OF ORIGIN OF NON-UK-RESIDENT PURCHASERS OF HIGH-END PRODUCTS

According to data from Global Blue, international visitors to the UK are high-spending; £1,850 per trip which is just below France at £1,870 and significantly above Italy (£1,650), Germany (£990) and Spain (£840). Due to the importance of international visitors, the high-end brands make significant investment in their international marketing activities. On average for Walpole members, 28% of their advertising budget is focused on driving tourist spend with some larger brands indicating that their combined spend on international marketing sits at £100 million, such is the importance of the international visitors to the sector.

Shopping Tourism is also prevalent in specific locations, primarily major cities that have clusters of businesses creating concentrated high-end shopping experiences, locations such as Bond Street or Knightsbridge. This is valuable to shoppers, principally because it reduces search costs, reduces travel time, and facilitates comparisons allowing them to match products. This is a reflection of agglomeration of clustering effects, which are covered in separate sections.

While price factors, notably differences in tariffs, exchange rates and indirect taxes, are among the drivers of Shopping Tourism, other incentives include the assurance that goods are not counterfeit (a particular concern for Chinese customers), increased consumer choice due to the clustering of shops and the overall attractiveness of the retail environment. For example, the appeal of shopping in an area like Covent Garden or Sloane Square gives visitors a curated choice of brands combined with attractive shop formats and choice of top dining and cultural experiences.

Another determining factor in Shopping Tourism is the status conferred by particular brands and purchasing those brands in their place of origin. For example, for many visitors, especially the Chinese, buying a classic Burberry trench coat in UK is highly appealing. Not only does it ensure authenticity but is an important part of the whole experience.

This trend is evidenced in the data from Global Blue which indexes European spend share for international brands. The UK over indexes against France and Italy as seen in Figure 7.

	UK BRANDS	FRENCH BRANDS	ITALIAN BRANDS
UK	214	55	94
FRANCE	31	159	57
ITALY	42	72	178

FIGURE 7: INDEX VS EUROPEAN SPEND SHARE FOR INTERNATIONAL BRANDS IN 2018

The concentration of shopping opportunities in a specific location not only contributes to Shopping Tourism, it also grows the tourism and travel industries in that location more rapidly. This is reflected in the marketing initiatives of the tourism authorities which intentionally emphasise shopping opportunities associated with other available tourist experiences in major cities in order to attract visitors. The Government's GREAT campaigns, specifically LUXURY is GREAT and SHOPPING is GREAT, also help to promote products and experiences to international visitors to the UK.

Key events such as London Fashion Week, The Design Festival and art fairs such as Frieze and Masterpiece are major drivers of international visitors to the UK and have established links with the high-end creative and cultural industries with whom they share a customer base.

These observations suggest that investments undertaken by businesses in the high-end industries to enhance the appeal of their products have significant spill over effects to the travel and tourism industries and as such these industries (and their contribution to the wider economy) would be smaller without the investments made by the luxury sector. Therefore, these investments can be said to have a genuine multiplier effect to other industries and the wider economy.

A further type of spill over effect associated with enhancements to the overall attractiveness of locations and enjoyment of public spaces can also be linked with the high-end creative and cultural industries. Take the significant investment in areas such as Pavilion Road and the Kings Road made by Cadogan Estates to develop retail spaces which include independent food producers

and restaurants serving both visitors, workers and local residents. Similarly, the New West End Company has invested heavily in areas such as Bond Street to improve the international visitor experience and the area behind Kings Cross has been transformed with the opening of Coal Drops Yard and its shops and restaurants.

4.2 EMPLOYMENT AND MANUFACTURING

In addition to the spill over effects conferred on travel and tourism another spill over of the high-end creative and cultural industries is to the enhancement of knowledge and skills and employment opportunities. The high-end creative and cultural industries, are a major contributor to employment in the UK, employing over 156,000 people directly and indirectly. The high-end industries provide both employment opportunities, as well as training and apprenticeships for people in all regions of the UK. From medium and large-scale manufacturing to individual artisans and makers working in regional clusters, the luxury supply chain has a significant footprint across the country. Bentley, Burberry, Church's, Ettinger, Johnstons of Elgin, Rolls-Royce Motor Cars, Savoir Beds, Sunseeker and Wedgwood all have regional centres for manufacturing and production.

Due the type of employment and the necessity for highly skilled craftspeople, the high-end industries provide opportunities for young people through training and apprenticeship programmes and also provide sustainable careers for their long-term employment. Many of the high-end businesses will have skilled craftsmen in their 70s who are training the next generation and passing on traditional skills and knowledge.

REGIONAL EMPLOYMENT & APPRENTICESHIP SNAPSHOT

Bentley Motors in Crewe is recruiting for 51 new apprentice positions to start in the autumn of 2019. In a first for the business, nearly a third will study digital apprenticeships, working on luxury mobility technologies of the future. Vacancies also cover commercial areas such as Sales and Marketing, Human Resources, Finance and Purchasing, as well as the traditional Engineering and Manufacturing opportunities. The new cohort will join over 250 people already on trainee programmes.

Burberry's Castleford factory in West Yorkshire, which manufactures the brand's iconic trench coat, employs around 600 skilled workers and also runs a training scheme for apprentices, providing employment opportunities for young people in the area.

Church's shoes based in Northampton are a leading local employer and committed to preserving specialist skills so that they are passed onto the next generation of apprentices. This is characteristic of the contribution many regional high-end employers make to providing sustainable careers that boost local economies.

Johnstons of Elgin who produce 100% of their cashmere in Hawick, Scotland was awarded the GOLD Investors in Young People [IYYP] Good Practice Award in 2018, recognising the business' commitment to training, developing and employing young people and redefining mastery of skills. Over 100 employees have successfully completed their Modern Apprenticeship programme, with more employees in training.

Mulberry, with the help of government funding doubled the size of the UK factory in Bridgewater, Somerset and created 300 new jobs in the area.

Sunseeker in Poole, Dorset has recently increased its intake of post-GCSE aged apprentices from 60 to 100 per year across a variety of trades in boat building including Mechanical/Electrical Engineering, Carpentry and Lamination. Since the scheme was established in 1979, over 1000 young people have been trained for employment by Sunseeker.

INDUSTRY HIGHLIGHT

Table and glasswear designer **Richard Brendon** has made it his mission to safeguard and regenerate heritage craft industries through innovation, collaboration and good design. All of his eponymous brand's bone china is made entirely in Stoke-on-Trent, where all of the collections are warehoused and distributed from. Additionally, all of the brand's packaging is made in the UK.

Votary the natural skincare brand, is proud to manufacture in the UK. 'Made in UK' is an important part of brand DNA alongside vegan, effective and independent. Trust and transparency are important to customers and manufacturing **Votary's** products in the UK, in a family-owned facility is a one of the ways it delivers on that.

INDUSTRY HIGHLIGHT

As expansion continues for British watchmaker **Bremont**, its plans for a new 35,00 square foot bespoke building in Henley-on-Thames to bring the manufacturing and other areas of the business into one facility are well underway. This new Headquarters will enable **Bremont** to increase its workforce, significantly enhance its watch-making capabilities and provide more training and development for its watch makers. The more of the manufacturing process that **Bremont** can bring back to the UK the more self-reliant and efficient the firm can become and ultimately the more the firm can increase its production levels.

The high-end cultural and creative industries have an extensive network of contractual relationships with upstream suppliers, often SMEs, particularly in industries such as textiles, fabric and leather. The intrinsic commercial importance of product quality ensures that the upstream suppliers have sufficient skills and are able to adapt to changing manufacture requirements. Therefore, upstream suppliers have incentives to develop a reputation for reliability and skilled workmanship, and downstream purchasers have an interest in securing long-term supply relationships to have continuity of supply and to reduce transaction costs.

The supplier relationship outlined above is conducive to a particular form of knowledge spill over in which luxury businesses may, through training or other initiatives undertake to develop the skills of suppliers to better fulfil their requirements. These initiatives themselves are not spill over effects but they may generate spill over effects. As suppliers improve their skills, some of their knowledge and expertise is likely to spread to other supplying firms, either through observation, employment or through informal networks.

Suppliers also benefit from learning-by-doing and the tacit transfer of knowledge and skills independent of any formal efforts undertaken by the high-end cultural and creative industries. These tacit effects are generally observed where there is repeated and frequent interaction, as is the case with luxury cultural and creative industries who work closely with suppliers to develop products. Such learning-by-doing effects are generally considered to be one of the main channels through which the stock of skills and knowledge increases within an economy as a consequence of trade and investment. Furthermore, these effects tend to diffuse across supply firms in any given area due to employment mobility.

These types of knowledge spill overs are important in

increasing the stock of skills in the UK economy. Some of these skills may be generic while others will be specific, but without the dense network of subcontracting relationships developed by the high-end cultural and creative industries, these spill over effects would have been unlikely. Given the close relationship between skills and productivity, and between productivity and economic growth, these knowledge spill over effects associated with high-end industries constitute a genuine multiplier effect. Essentially the economy would have been smaller in their absence. The spill over effects are particularly important in the UK as they increase the skill sets of younger workers, increasing their competitiveness in the labour market.

4.3 CLUSTERING EFFECTS

A further benefit conferred by the high-end cultural and creative industries is the clustering of businesses in a particular area. This is most obviously visible in luxury design, services and retail activities in cities (downstream agglomeration effects) and the clustering of supply chain activities related to luxury and creative industries reflecting knowledge related spill overs (upstream agglomeration effects).

Clustering of high-end brands that interact directly with customers create important agglomeration effects in relations to tourism and travel (as highlighted in section 4.1) either through spill overs to Shopping Tourism or through the Public Goods Channel. Other sources of agglomeration or clustering effects are related to the contribution that the high-end industries play in developing the knowledge-base of the UK economy, which is central to UK competitiveness.

Knowledge-based activities are typically capital and skills intensive and generate a high degree of local value added through proprietary knowledge. The high-end industries are themselves part of the knowledge-based economy and as a result tend to cluster in specific cities or locations

and will stimulate the knowledge base of the economy in their host region. However, they also contribute indirectly through labour market effects. The luxury sector relies on a highly skilled workforce and creative cohort of employees whose skills are portable across industries. The fact the high-end industries cluster in specific locations greatly increases the stock of skills in those areas and in turn increases the attractiveness of the area for other knowledge-based businesses to locate their operations to these centres of excellence. Automotive is a good example and is well known for the clustering effects in Oxfordshire which attracts businesses involved in Motor Sport, namely luxury and specialist manufacturers involved in Formula 1 racing.

A secondary channel through which the high-end creative and cultural industries generate agglomeration effects in relation to the knowledge base activities is through their contribution and improvements to the quality of place. This is important as the labour force associated with knowledge-based activities is typically more mobile than average due to the scarcity of their skills. Enhancements to the quality of place can thus increase the attractiveness of particular locations. For example, the investment made by Wedgwood in Stoke-on-Trent is evidence of a town and working environment which has been dramatically

improved through the creation of the state-of-the-art manufacturing centre, visitor centre, restaurant and retail offer. Another example is the investment made by Bicester Village to area in Oxfordshire and the investment in extending the train line.

The clustering of upstream supply activities, driven by knowledge spill overs also have an important role in stimulating regional development. This is partly because of the labour market and the fact that region becomes more attractive for investment by nature of the stock of skills. A further channel is the fact that the supply chains associated with the high-end activities connect these regions to the global economy - this is particularly important given the difficulties SMEs usually encounter in accessing global markets.

4.4 PUBLIC GOODS RELATED TO THE VALUE OF PLACE

The importance of these public goods was already discussed in relation to tourism activities, agglomeration effects and is also valued by residents and workers. Investment made by the high-end industries into the locations, city centres, areas of manufacturing benefits the whole local community improving the local environment and greatly improving the appeal of a particular area.

5. The Trade Challenge Ahead

As highlighted in this report the high-end industries are heavily export orientated with 80% in value terms destined for overseas markets and international trade being a key future growth driver.

Uncertainty has become the defining sentiment of the UK economy over the past couple of years, this is predominantly because of the time taken over Brexit negotiations. The USA's protectionist stance on trade may also exacerbate uncertainty for the UK's high-end creative and cultural industries and the way in which both these situations play out will have an enormous impact.

5.1 THE EFFECTS OF BREXIT

The decision by the UK to leave the European Union could have profound effects on the high-end creative and cultural industries. Clearly the impact is dependent on what post-Brexit arrangements are agreed between the UK and the EU.

This analysis uses a no-deal outcome as the baseline scenario as this would have the biggest negative impact. Our focus is on changes to market access that are likely to arise in a no-deal scenario. Changes in market access will hinge on changes to tariffs and non-tariff measures that affect UK exporters of high-end products, as well as those companies reliant on importing materials and components. Non-tariff measures include regulations such as health and safety requirements, or environmental standards that apply to products. Any divergence between the UK and its export markets, or additional costs associated with having to demonstrate compliance

once the UK is out of the single market, may penalise UK exporters.

Tariff and non-tariff measures will affect exports directly to the EU and exports to markets in which the UK currently enjoys duty-free access by virtue of Free Trade Agreements negotiated by the EU and to which the UK will no longer be party once it leaves the EU unless it can renegotiate these agreements. These markets include Canada, Japan, Korea and Singapore.

Whilst average tariffs in the EU and non-EU markets mentioned above are low, there are exceptions. Unfortunately, these exceptions tend to be disproportionately concentrated in the luxury sector. In the EU, for example, alcoholic beverages can attract duties of up to 32%; tariffs on clothing and apparel attract duties of around 12% on average, while motor vehicles attract duties of around 10%. Glassware attracts duties of around 3%. In South Korea, tariffs are an issue for motor vehicles (8%) and for alcoholic beverages (duties of around 30% on whisky).

Up to 20% of the current value of UK high-end exports or £6.8 billion could be at risk from purely the market access effects of a no-deal Brexit

Even if tariffs are low, non-tariff measures may affect exporters. For example, motor vehicle exports to Japan do not face tariffs, but compliance with environmental and safety regulations has historically penalised exporters to Japan. The EU-Japan FTA has made some progress in addressing these barriers, but these advantages would be lost to the UK once it leaves the EU unless and until it secures a separate trade deal with Japan. The timeframe for such deals to be negotiated is, at best, unclear.

Given these effects, the impact of a no-deal Brexit could be profound – potentially reducing exports in the high-end sectors by around 36% on average per year due to the depth of integration between the EU and the UK. For non-EU markets, the effects are slightly less, though still amount to 24% loss of export business per year.

In value terms, this translates to a reduction of around £6 billion per year in exports to the EU and around £800 million a year to the Asia-Pacific region. In total up to 20% of the current value of UK high-end exports could be at risk from purely the market access effects of a no-deal exit.

These purely financial projections do not reflect the full impact of a no-deal exit. Other factors will also play a role, according to the ONS there were 2.27 million EU nationals (non-UK) working in the UK at the end of 2019 and leaving the single market for labour is likely to mean a reduction in access to skilled labour in the high-end

creative and cultural industries. This acts as an implicit tax on the competitiveness of all exports, regardless of whether these exports go to the EU or elsewhere.

Leaving the single market may also disrupt supply chains if there is an increase in transport costs. The efficiency of supply chains has been greatly enhanced by the progressive liberalisation of transport services. Under a no-deal scenario, the UK may face increased costs to access the EU-wide transport services.

5.2 THE WIDER ENVIRONMENT FOR TRADE

An upswing in protectionist sentiment in the US and other markets could also damage prospects for the UK high-end sectors. Specific threats include the possibility of 25% tariffs on cars, which would have a dramatic adverse impact on the single largest UK high-end sector, automotive and tariffs on clothing and leather accessories would in effect double the duties of these products sold in the US.

The US has already imposed tariffs on certain non-high-end EU exports such as aluminium and steel and, in retaliation, the EU has imposed 25% tariffs on a range of US products including clothing, beverages and motorcycles. If the EU were to retaliate against future US tariffs on cars, it may prompt further US action on products of interest to the EU and the UK.

More broadly, escalating trade tensions could affect global economic growth. The International Monetary Fund, for instance, has already cut its global growth forecasts for 2019 from 3.9% to 3.7%, and growth in China is expected to be 6.2% compared to predictions of 6.4%. Slower growth, particularly in emerging markets, is likely to have a disproportionate downward effect on demand for high-end goods, as potential customers reduce discretionary spending.

Tourists visiting the UK spent £4.5 billion on luxury in 2017 with personal goods being the most popular items with overseas visitors

6. Forecasts

In an optimistic scenario, in which the UK and the EU conclude a deep free-trade agreement that ensures duty-free trade, substantial regulatory convergence, access to skilled workers, and in which international trade tensions subside, we would project relatively robust growth in the value of the high-end sectors. Over the five years from 2019 to 2024 the value of sales could grow from current levels to between £65 and £74 billion.

In a pessimistic scenario in which the UK and the EU cannot secure an agreement on their future relationship (at least in the medium term), and global trade tensions

further escalate, we would project considerably slower growth. Over the five years from 2019 to 2024, we project that the sectors would grow to between £52 billion to £60 billion. The lower end of that range represents a very low level of growth compared to current levels.

The projections highlight the value at risk to the high-end sectors from any adverse impact arising from Brexit and the international trade situation more generally. By the same token they highlight the advantages of securing stable and liberal arrangements on both fronts.

ENVIRONMENT FOR GROWTH	PROJECTED VALUE 2024 (BILLIONS)
Scenario 1: optimistic	£65 and £74 billion
Scenario 2: pessimistic	£52 and £60 billion

FIGURE 8: PROJECTED PERFORMANCE TO 2024

7.

Policy Recommendations

This report clearly demonstrates that the high-end creative and cultural industries make a substantial and distinctive economic contribution to the UK. The sector as a whole has performed well, outpacing national economic growth, directly creating jobs and contributing to the UK's competitiveness and reputation. Wider benefits include the contribution to the travel and tourism industries as well as the labour market linkages and contribution to UK manufacturing. The sector appears poised to continue this strong performance, notwithstanding the political context of Brexit and the potential impact on trade and access to talent.

The research that Walpole has commissioned highlights the value that the UK gains by ensuring that a suitable policy framework is in place to enable the high-end cultural and creative industries' business model to flourish. The key elements of such a policy framework are detailed below.

7.1 BREXIT

The uncertainty around Brexit remains one of the highest business priorities and the need to avoid a no-deal Brexit is critical. The impact (both the opportunities and threats) of Brexit has been defined by Walpole in earlier reports and the economic impact of a no-deal Brexit is highlighted in this report and estimates that the cost would be 20% of export revenues, amounting to just under £7 billion a year in value terms.

However, these figures do not take into account the impact of the loss of skills and access to talent or the loss of

investment since the referendum due to uncertainty. Therefore, the actual economic impact of Brexit would be significantly higher.

Aligned with the majority of the business community, Walpole urges policymakers, to rule out the possibility of a no-deal Brexit, which would have a far-reaching negative impact on the growth prospects for the sector.

Given the importance of European distribution and supply chains and the value of the skills of EU nationals resident in the UK, a sensible transition period remains essential to give businesses in the high-end industries time to make the necessary plans following the UK's departure from the EU.

Looking ahead to the future trading relationship between the UK and the EU, the priority must be an arrangement that allows the movement of goods and services in as frictionless way as possible and close regulatory alignment.

7.2 SECTOR RECOGNITION

Given the value of the sector to the economy, the contribution to employment and exports, the impact on the UK's soft power and the wider spill over effects to the travel and tourism industries as well as UK's manufacturing we ask policy makers for sector recognition for the luxury industry. The sector is poised for growth with ambitions to drive exports, further contribute to the economy, UK employment and manufacturing and formal Government recognition would provide the framework and the foundations to enable the future growth potential of the sector.

7.3 INTELLECTUAL PROPERTY

The protection of intellectual property (IP) remains a critical issue for the luxury cultural and creative industries. A strong framework for IP protection is essential if the high-end industries are to reaffirm the originality and differentiate their products and secure long-term investment in innovation. Importantly, IP rights give brands legal certainty in both the physical and digital economies.

In the fight against counterfeiting, there is a need for tougher sanctions and for improvements to the damages and compensation rights holders can claim. Extension of geographical identification to other categories would enable brands to better protection of unique skills and place of origin. Further clarification of the safe-harbour status to rebalance responsibilities in the fight against counterfeiting to both about protect consumers from being misled as well as protecting their health and safety is also required.

7.4 SELECTIVE DISTRIBUTION

As highlighted earlier in this report, the high-end industries' distribution strategy is geared towards maintaining the aura of the product to ensure that goods and services are distributed in a way that maintains and enhances the luxury retail experience. Selective distribution enables brands to meet the levels of service customers expect and supports businesses' commercial considerations.

The ability for the luxury cultural and creative industries to closely manage and invest in their distribution models,

through the principles of selective distribution, is critical to growth and needs to be protected. We urge policymakers and those involved in the evaluation of the (Vertical Block Exemption Regulation (VBER) over the coming months to reaffirm the critical importance of selective distribution for the sector.

7.5 DIGITAL GOVERNANCE

The increased digitisation of the British economy creates a wealth of opportunities, but also a responsibility to ensure consumer trust and safety online. In particular policy relating to responsible online marketing practices; a general duty of care on online service providers; recognition of selective distribution and IP protection as well as policy and sanctions relating to counterfeiting are all key to providing a secure digital environment for customers and businesses to operate.

7.6 MARKET ACCESS

The luxury industries are highly export-orientated with 80% in value terms destined for international markets. Key export markets include the US, China, Japan, Korea, France, Germany, Spain, Russia and the Middle East but international trade is not without challenges. Barriers to international trade such as high ad valorem tariffs and domestic taxes in markets including China are obstacles to entry for a number of SMEs. Legislation around percentages of foreign direct investment is a barrier in markets such as India and specific legalities around electronic mechanisms in markets such as Korea. There are additional challenges in researching and finding

the right distribution partners, particularly in markets like China. As such policy, trade agreements, diplomatic relationships and other activities that enhance the sector's ability to access international markets are critical.

Walpole works closely with the Department for International Trade, the GREAT campaign and the individual embassies in priority export markets to enable its members to do better business abroad. This working relationship has proved to be very effective and we recommend Government continues to invest in the GREAT campaign and further enhance the skills of the local teams across the DIT international network.

7.7 INTERNATIONAL VISITOR EXPERIENCE

The luxury and high-end sectors contribute significantly to in-bound tourism into the UK with visitors specifically choosing to visit the UK to buy British luxury goods and experiences. The positive spill over effects are covered in detail in Section 4.

Chinese visitors

The Chinese are the world's highest spending travellers and are particularly important in the UK. Whilst good progress has been made in increasing the numbers of visitors from China, particularly through visa-application initiatives, the UK continues to attract far fewer in comparison to those European countries who are members of Schengen. The 587,000 Chinese tourists to the UK in 2018 is only a quarter of the more than 2 million plus who visited Schengen countries.

Policy and visa facilitation that enables the high-end industries to attract high-spending visitors to the UK from key markets such as China, India and the Middle East, is critical to the success and will bring further economic benefits to the UK economy.

In particular, the sector supports the recommendations of the UK China Visa Alliance, and the roll-out of the pilot scheme of visa-sharing with Belgium, to other Schengen countries such as France. It also supports implementing former Prime Minister David Cameron's commitment to introducing a 10-year, multi-entry visitor visa as standard in place of the current two-year standard visa.

Airport capacity and arrival experience

The issue of capacity at London's airports is well documented. Research from Let Britain Fly shows that these already busy airports will be over capacity by mid-2020 and demand is set to double by 2050 with business demand alone forecast to grow by 80% by 2030. This not only impacts the visitor experience but also have links and costs to trade. The decision on where to build the new London runway needs to be taken as soon as possible.

At Heathrow, international visitors often face queues both on entry and when leaving. This creates a negative impression amongst visitors and Border Force needs to ensure that entry queues are kept to a minimum, particularly at peak times. These peak times are both seasonal (e.g. summer holiday time) and specific to key markets (e.g. Chinese New Year).

Tax-Free shopping

The paper-based system for tax-free shopping refunds often creates long queues at airports which means that many international shoppers do not claim their refund. Walpole supports New West End Company's campaign to persuade the Government to introduce a digital system quickly so that Britain remains competitive with other major global destinations.

More than 70% of international visitors are from EU countries, and are thus not eligible for tax-free shopping.

When the UK leaves the EU, the Government should amend the VAT Retail Export Scheme regulations to extend tax-free shopping to visitors from EU member states. It is estimated that this would be worth up to £1.4 billion in additional retail sales annually.

International Shopping Zones

Sunday trading regulations, which allow stores over 250 square metres to open for just six consecutive hours between 10am and 6pm put the UK's international shopping districts at a competitive disadvantage globally.

Research estimates that extending Sunday trading by just two hours in the international centres of the West End and Knightsbridge, as defined in The London Plan, would result in £260 million additional retail sales annually and create 2,000 FTE jobs. Walpole backs the call for the Government to add the International Centres to the list of exemptions in the 1994 Sunday Trading Act.

7.8 SKILLS AND VOCATIONAL TRAINING

This report demonstrates that the UK benefits from the employment opportunities and wider spill over effects into manufacturing, knowledge and skills from the high-end cultural and creative industries which employ over 156,000 people.

However, the luxury industries rely on highly-skilled craftsmen, a creative workforce and numerous SME upstream suppliers to support its business model. The de-prioritisation of creative and vocational education in schools and tertiary education has had a major impact on luxury companies' access to the necessary skills and talent. Furthermore, the sector also relies on a workforce of multilingual customer service and sales assistants to support international visitors. These skills gaps will only be exacerbated by Brexit.

There is an urgent need to address the shortages between industry requirements and the availability of a highly-skilled workforce and multilingual employees. Policies and initiatives that recognise the value of these unique skills and knowledge are important. Namely, investing in creative and technical education in schools and tertiary institutions, endorsing and promoting vocational and creative careers, investing in language education in schools, simplifying the apprenticeship levy to make it more easily accessible and supporting businesses that are providing on the job training.

7.9 SUPPORTING INVESTMENT

The high-end sector, as outlined in the report, relies on a network of small artisans and crafts businesses. To secure their supply chain, businesses will often take the decision to invest in their suppliers, or even buy them outright to ensure long-term access to the unique skills, expertise and manufacturing capability. We ask policymakers to look at mechanisms including tax breaks and incentives to support businesses who invest in their network of SMEs.

¹The COMTRADE database does not provide data at a level of disaggregation specific to the luxury sectors. It does provide data on sectors within which these high-end sectors are found i.e. host sectors, such as "cars". Because it cannot be automatically assumed that the geographical distribution of high-end exports is the same as the distribution of the host sectors, we use data from industry sources (where available) to adjust the trade flow derived from the COMTRADE database.

²The direct contribution is attributable to jobs in firms within each of the sectors. The methodology for estimating employment figures is to apply turnover to employment ratios for each of the sector. The ratios themselves have been derived from data reported by firms, and industry sources. There is some variance in the data reported for employment figures, and hence for employment ratios. Calculating the precise number of jobs in the high-end sectors is challenging because producers on high-end goods are sometimes multi-product firms that also produce non-high-end products (the car sector being one example). The same applies to retail activities: a retailer may sell high-end products (such as apparel), but may also sell other goods that do not qualify as high-end. Apportioning labour inputs between high-end and other products is thus not straightforward and hence the results should be treated as estimates.

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