



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Air Passenger Duty: Ministerial Response to
Committee Report

3 October 2012

NORTHERN IRELAND ASSEMBLY

Committee for Finance and Personnel

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Members present for all or part of the proceedings:

Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mr Roy Beggs
Mrs Judith Cochrane
Mr Leslie Cree
Ms Megan Fearon
Mr Paul Girvan
Mr David McIlveen
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Mr Sammy Wilson	The Minister of Finance and Personnel
Mr Bill Pauley	Department of Finance and Personnel

The Chairperson: Minister, you are very welcome.

Mr Wilson (The Minister of Finance and Personnel): Thank you.

The Chairperson: I hope that you did not get stuck in traffic this morning.

Mr Wilson: No, Kennedy's chaos did not affect me today. *[Laughter.]*

Mr Mitchel McLaughlin: You would have been on your motorbike anyway. *[Laughter.]*

Mr Cree: You should get up earlier. *[Laughter.]*

The Chairperson: Sammy, do you want to make an opening statement before we open up the session for questions?

Mr Wilson: I take it that you want me to deal with the issues as you listed them: the Department's response to your report, the Bill and corporation tax.

The Chairperson: We will deal with the three issues in separate sessions today.

Mr Wilson: If you are happy enough, I will take the Committee's response to the report first. I thank the Committee for its interest in and support for the issue of air passenger duty (APD). I also thank the Committee for its report, prior to the legislative consent motion. It contained a number of recommendations, and I responded in writing on 11 September.

I know that you are familiar with the issue, so I will not really go into the background too much. The issue arose because of the very real danger of losing the direct-haul flight to Newark if we did not deal with APD. When Continental Airlines, as it was then, made it clear that the difference in the rate of duty meant that flights from Dublin would be much more competitive than those from Belfast, the view of the Executive, the Department of Enterprise, Trade and Investment (DETI) and my Department was that we could not afford to lose that route. That was not just because of the impact on tourism — that would probably be the lesser impact — but because of the impact it would have on attracting international investment, especially from North America. There was a lot of hard work and lobbying on the issue. Finally, the Chancellor, probably contrary to the view of some of his officials — took the decision, first, to reduce our direct long-haul APD rates on bands B, C and D to the short-haul band rate of £6, and then we would begin the process of devolving powers to Northern Ireland to allow us to set our rates.

The Committee, in its report, expressed concern about the adverse impact of APD generally. I am also concerned about it, as are Finance Ministers in the other devolved regions. It probably affects us more than anywhere else. At least Scotland and Wales have direct rail and road links, whereas most of our links with the rest of the United Kingdom are by air, so air passenger duty has an impact. Often, people travelling beyond the United Kingdom have to go via a UK airport at an additional cost.

There is now a considerable lobby on APD at Westminster. We, as an Executive, have already made it known, through the consultation on air passenger duty, that we believe that it is an unfair and unnecessary tax. I will not bore the Committee with my views on the origins of the tax or the arguments that some environmentalists made for it. However, even if we take on board the environmentalist argument, the new tax on carbon, the carbon floor price, the emissions trading scheme, and so on, mean that there are now other ways of dealing with flight emissions without also imposing this additional tax, which places us at a disadvantage. We made that view known during the consultation. I know that the Committee was also concerned, and a couple of its recommendations referred to that.

The Committee report asks what opportunities we are seeking, in light of the impending devolution of the tax, to expand the number of direct long-haul flights. DETI and the Department of Agriculture and Rural Development (DARD) are already working on that. DETI has been in touch with Belfast International Airport to see what opportunities are there, and there has been engagement with some airlines already. I do not know how successful those engagements will be, but the advantage that we will have once the tax is devolved and brought down to zero should be substantial. Arlene Foster will continue to press on that.

Another recommendation is for a study on having all APD powers devolved to Northern Ireland and a cost-benefit analysis of reducing the tax in other bands should that happen. Some work will be done on that, but I have a word of caution for the Committee: the cost of devolving all powers and reducing all rates to zero would be £60 million, and the Government reckon that it would rise to £90 million. There may well be better ways of spending that money, for example, on a transport strategy, rather than simply reducing air passenger duty. The economic strategy is looking at all of that. My officials are liaising with DETI to look at how we can carry out a study on that. However, given that there are other ways of developing an effective transport strategy, I am not convinced, at this early stage anyway, that that is the best way of spending that kind of money.

That is all that I want to say on the Committee report. We are happy to take any questions on the responses.

The Chairperson: Thank you very much, Minister. The report was produced before I came on to the Committee. However, I read over it last night, and some of the opinions, positions and facts are quite striking. A common misconception is that corporation tax is the big thing and that, in comparison, air passenger duty is very much a minor issue. The APD changes that are being put in place account for only 1.5% of the overall duty, the majority being band A.

We need to take into consideration the fact that Dublin is closer to Belfast than ever before because of better transport links between the two. Some feel that Belfast International Airport and Belfast City Airport will always be second best because of the much lower €3 APD rate in Dublin. I was very

interested in the comments of PricewaterhouseCoopers (PWC), which appear in the Committee's report. PWC say that air passenger duty:

"needs to be given equal prominence with the potential devolution of Corporation Tax varying powers which ultimately seeks to help rebalance the Northern Ireland economy."

Do you agree with that statement?

Mr Wilson: We zoned in on a particular aspect of APD because we believed that, first, it was the more affordable option and, secondly, that it targeted the groups that we wished to target: businessmen who travel directly to Northern Ireland, which means a direct investment, and tourists.

One problem with the wider application of APD is that, if we were to reduce the rate for band A, we would reduce the rate for many people who do not benefit the Northern Ireland economy. That might be great for people who wish to go on holiday to Spain or on a weekend shopping break to Paris, Brussels or wherever. A lot of those people would be impacted by a reduction in band A, but that would probably be detrimental to the Northern Ireland economy. It was felt that retaining direct-haul flights would have a much more beneficial impact on the Northern Ireland economy.

I suppose that, in essence, PWC are saying that transport links and connectivity are important for any region of the United Kingdom: about a year and a half ago, for example, I attended a lobbying event at Westminster, and the chief executive of Newcastle City Council was there. His council had established a direct-haul flight from Newcastle International Airport to the Emirates — I think that the flight was to Dubai, but I cannot remember. He said that, as a result, over a period of a year or two, the amount of business with that area had increased ten-fold. That kind of international connectivity is important, so if PWC is saying that we should not lose sight of the economic benefits of tax changes that improve connectivity between Northern Ireland and other parts of the world, it is right.

The Chairperson: The suggested change relates to direct long-haul flights. The flip side of FG Wilson's recent relocation of jobs to China is that we need to avail ourselves of the opportunities in the BRIC countries — Brazil, Russia, India and China — the key to which will be all long-haul, or two-leg, flights to China, Russia and places like that.

Mr Wilson: One reason why there is a lobby in the United Kingdom as a whole to reduce or do away with air passenger duty is the recognition that air passenger duty will have an impact on whether the UK can remain a hub for international airlines — that is important for places such as Manchester Airport, Heathrow, Gatwick, and so on. Of course, if the UK does not remain a hub, any new hub airports could be located further and further away from us, in Frankfurt, Holland or wherever. That is one of the arguments for reducing or doing away with air passenger duty for the UK as a whole.

The Chairperson: Is there any softening in the British Government position on not lowering APD across the board? I note that Theresa Villiers, the new Secretary of State, was formerly in the Department for Transport across the water. In June, she said that the Government were not of a mind to reduce the rate of APD for internal flights to the North given that the aviation industry did not pay fuel duty and APD was its only contribution to the Exchequer. Has she changed her view on that?

Mr Wilson: I do not think that she has, and I do not think that the Chancellor has either. He has made it clear that, although APD may have been introduced as an environmental tax, it is now a revenue raiser. Given that the Government are struggling with their deficit reduction plan, I cannot see that there will be any immediate softening. They talk about not paying duty on aviation fuel and everything else, but the emissions trading scheme now requires them to make payments for whatever carbon is produced when planes fly. It is almost a kind of double taxation. The difficulty for the Government is that APD is not applied in other countries seen as competitor countries.

Mr Mitchel McLaughlin: For a while, Sammy, when you were discussing the origins of the issue, there was a danger of you starting to sound like an expert on climate change. *[Laughter.]*

Mr Wilson: I am, Mitchel.

Mr Mitchel McLaughlin: I have to say that I think that good work has been done and that there is a meeting of minds across the political boundaries. On behalf of my party, I express support for the measures that you have set out.

I am reassured, on the basis of your response to the Committee's report, that any further exploration of opportunities to apply relief to air passenger duty would be evidence based, which is the way to go. We could scare ourselves off by going for the maximum hit: £60 million, perhaps rising to £90 million in the event of wholesale application. However, I doubt that anyone would sensibly argue that that is what we should do. We should step into this, do the cost-benefit analysis and examine the opportunity cost of not doing it, and so on and so forth. So on that basis, I am very content to support the proposition.

Mr Wilson: If the evidence is there that further changes could bring huge benefit, of course we would make them. However, given our constrained economic position, and this is true of all interventions now, we have to be sure not to take a scattergun approach.

Mr Mitchel McLaughlin: Yes, we must be strategic.

Mr Wilson: We must zone in on something that is really worth either forgoing revenue on or spending money on. However, it must be on the basis of at least some evidence that there are benefits from it.

It is not always possible, of course, to identify the benefits immediately, and the ripple effects can become fairly subjective. The further out the ripple effects, whether in time or sectors, the more subjective they become. It is always worth issuing that warning. Of course, lobby groups will always try to exaggerate the ripple effects, so you have to apply some judgement to that as well.

Mr Cree: Minister, you mentioned the environmental issue and the potential revenue stream, which could, I believe, be multibillion. However, other countries in Europe — Denmark, Belgium and Holland — have virtually dropped APD because they were losing so much business. I wonder whether they are absorbing the cost of doing that and whether there is a lesson there for us because of the Dublin-Belfast axis. In the Republic, the APD is so low that it is virtually free.

I would like you to comment on another issue. You will remember the Scottish Highlands and Islands exemption, which was on the basis of population and was, I think, a wee bit of a fudge. We have similar problems in that we do not have good rail and road links, and so on. Do you see any prospect of leveraging that one to our advantage?

Mr Wilson: That was one of the arguments that we made at an early stage to the Treasury, but we got nowhere because Treasury officials said that it was a different situation. As you said, it was about the scattered population, not just remoteness, etc.

We believe that we went down the route that was most likely to be productive and get us the quickest result. Do not forget that it is also one reason, but not the only reason, why we went for a reduction in APD for direct long-haul flights. Some argue, as the Chair pointed out, that it would have been beneficial to businesses and people in Northern Ireland to have air passenger duty removed from all long-haul flights, whether they were connecting or not. However, we were under such time pressure at the time from Continental, now United, Airlines that we were really pushing at the door. We probably saved this at the last minute, to be quite truthful. We went down the route that we did because we believed that it was the one that would give us the quickest result. Even then, it was only because of personal interventions, first by Hugo Swire, who did sterling work, and then the Chancellor, that we saved the route. Time and time again, we have argued with the Treasury that we should have exemptions from band A, on the basis of the precedent of the Highlands and Islands, so I do not think that there is any point in revisiting it. In any case, do not forget that such an exemption from band A would be limited because the devolution of APD is only for connections to the hub airports.

Mr Cree: The difficulty is that we are suffering from that. I know of one businessman who flies his staff out to work in the north-east of England early on Monday mornings and back on Friday nights. That is a cost to his business, whereas the people on the other side of the water have the benefit. What has happened in the other European countries that ditched APD? How do they get away with it?

Mr Wilson: Obviously, they made a judgement that this is revenue that they are willing to forgo because of the wider benefits. The Republic has made that judgement, even at a time of fairly strict financial austerity. Even with the International Monetary Fund, the European Central Bank and others putting pressure on the Republic, the Government still made the judgment to reduce APD to €3. Governments will judge whether the revenue forgone is worth it. I do not know what the total value of the revenue is now, but the UK Government have decided that they wish to bring in and hold on to

however many billions of pounds they get from the duty, which is, I think, the wrong decision. There is a mounting lobby against that, and it is not just a matter of the Labour Party being opportunist in exploiting the current disadvantage. Do not forget that the Labour Party introduced it in the first place. There is a genuine concern across all parties that, in the long run, the tax is not one that will not be beneficial to the aviation industry in the UK.

The Chairperson: Minister, I want to follow on from Leslie's point about businesses that travel back and forth across the water. The Federation of Small Businesses cited the example of a firm that secured contracts in England and Scotland and had 20 staff going to and from there each week. At an APD cost of £13 a person on each flight, each way, that worked out at around £520 a week, or around £2,000 a month.

There is also a reference to research being undertaken in conjunction with other Departments. How much of that research will take into account the business impact?

Mr Wilson: The difficulty, of course, will be that, even if we were to get a figure for the business impact, we could not simply decide to ignore or reduce the tax for business flights but not for people travelling for other reasons, because it is hard to determine a passenger's reason for travel. I do not know what the breakdown is, but I suspect that just as many people travel back and forward on short-haul flights from Northern Ireland to other parts of the United Kingdom for non-business, non-essential reasons. That could be for pleasure or whatever else. If we decide that we want to deal with this, we will have to give the benefits to those people, too, because it is impossible to separate them. Of course, we could decide to take the duty off all business travel, which would remove the duty for those paying the top rate. However, I suspect that many of the firms that you are talking about send their workers in economy class, so passengers cannot even be differentiated in that way. We could allow the tax to be taken off for the top managers who insist on travelling in business class to wherever it happens to be. Even if we had the evidence, I do not know what could be done with it, because it is not possible to differentiate between one kind of traveller and another.

The Chairperson: Do we have a time frame yet for the research or draft terms of reference?

Mr Wilson: No, we are really just investigating with DETI what work can be done and how that work can be scoped.

Mr Bill Pauley (Department of Finance and Personnel): We are drafting the terms of reference. DETI has a company that advises it on some of the aviation issues. Indeed, it has helped us in the past and is helping us to work up the terms of reference for how we can properly look at this. However, that has not yet been developed into a study with a timetable.

The Chairperson: Will you have that secured before Christmas?

Mr Pauley: My understanding is that we will.

Mr D Bradley: If my memory serves me right, this issue emerged from the Continental Airlines New York flight being under threat, and a speedy measure was thought appropriate. Obviously, we hope that that flight, which is very important to Northern Ireland, will be maintained.

You referred to the importance of connectivity to the economy in general and to tourism in particular. Have you any indications of what this measure will open up?

Mr Wilson: In terms of —?

Mr D Bradley: In terms of future connectivity.

Mr Wilson: As I said in earlier remarks to the Committee, DETI and the Department for Regional Development are looking at what other companies may well be prepared, as a result of having a zero rate in Northern Ireland, to take flights directly from Northern Ireland to other parts of the world. I hope that I am not breaking any confidence in saying that Arlene is already speaking to a Canadian airline, and I think that other airlines are interested. Only when we know which airlines are interested will we know the range of routes that might be available. I suspect that DETI has a preferred range of routes that it would like to try to establish. It has a major programme of trying to expand exports from the Northern Ireland economy by 20%, which is a target in the Programme for Government. Growth of

20% really means looking beyond Europe to countries still enjoying economic growth. The Chairman mentioned some of those countries, and those are the kind of routes that Arlene will want to target. She will want to try to secure routes to the Far East, South America and the Middle East, because that is where the business opportunities are. Do not forget that DETI has been quite successful in getting companies to look beyond their normal horizons, to go out there and start winning business, as they have been starting to do. However, as I said, having that physical connectivity can open up all kinds of opportunities. Of course, anyone doing business with companies in Brazil or India needs to be able to travel to talk to the people who they deal with on a regular basis, and that is where connectivity becomes important.

Mr D Bradley: The world will be our oyster.

Mr Wilson: Ideally, it will. Given that the opportunities will not fall into our lap, it is a case of asking which ones we really want to target.

Mr Pauley: When there was a flight to Canada, it attracted about 50,000 passengers a year, so Canada is clearly an option. The flight ceased in 2008, which was around the time of some of the increases in air passenger duty. It may be that Canada is one of the first options that we consider.

Mr McQuillan: I am sorry that I had to leave to answer a phone call on important constituency business.

Minister, you said that reducing APD over all bands would cost between £60 million and £90 million. You then said that your view was that the money would be better spent on a transport strategy. Will you elaborate?

Mr Wilson: A transport strategy and what it would consist of is something that the economic strategy group is looking at. It is probably something more for the Regional Development Minister. Some people might say, "Get the bus lanes out of Belfast", if the radio this morning was anything to go by.

Mr Mitchel McLaughlin: Can we quote you?

Mr Wilson: It might well be that there is far greater merit in having better trade links in Northern Ireland. A cost-benefit analysis might show that that would help businesses more. Maybe it would help if there were a better rail link with — dare I say it — the airport in Dublin. There are lots of things that people may want to look at. Maybe we should improve some of the port facilities that we have for shipping goods out. As Mitchel McLaughlin said, we need to determine what the evidence shows. What do people say are the most important things to their business so that they are able to interface with people elsewhere or get goods moved from one place to another? That is why, rather than simply going for the first option and spending £90 million or £60 million on reducing air passenger duty, we should look at all the options that we have for £90 million-worth of spending.

Mr McQuillan: Has any thought been given to fuel duty and what we can do? I know that it is not a devolved thing, but are any negotiations going on with the Treasury about that?

Mr Wilson: Fuel duty is not a devolved issue, and I cannot see it being devolved in the very near future. I am quoting this figure off the top of my head, but every 1% of a reduction in fuel duty would probably cost us about £30 million. You would have to reduce it by a fair amount to make any difference, and I do not think that we could bear the cost.

Mr McQuillan: It is one thing that would help businesses in Northern Ireland more than anything.

Mr Wilson: It might help businesses, but the cost to all the other public services in even getting a marginal change in the rate of fuel would be enormous. I heard on the radio this morning that the market is sorting that out already. Half a billion fewer litres of petrol were purchased in the United Kingdom between April and July this year. The report indicates that that cannot be purely explained by the recession. People are looking at more fuel-efficient ways. They are looking at the journeys that they take and everything else. That in itself may cause the Government to think about trying to escalate the revenue from fuel duty. There now appears to be a greater elasticity of demand for fuel than what had originally been thought.

Mr Mitchel McLaughlin: Just wait for Danny Kennedy's bus lanes.

Mr Weir: That is obviously where they are all going.

The Chairperson: Obviously, people in Derry and Newry go across the border a lot for their fuel. Therefore, the tax take from that is being lost to the Dublin Government. Is there any way that the Department can make any calculations to determine, if the power was transferred and it was reduced by a penny, the increase in tax that you would get from people shopping closer to home?

Mr Wilson: The Northern Ireland Affairs Committee took some evidence from the Treasury on that some time ago. You may well be able to get figures from that. I cannot remember the figures, but I know that the Committee did a study into that. It looked at it, as far as I can remember, in terms of illegal fuel and in lost revenue as a result of cross-border movements. I think that there are figures about, but I do not know what they are. If the Committee was interested, I suspect that it may well get some figures on that from the report of the Northern Ireland Affairs Committee.

Mr Beggs: Removing APD altogether, or even just reducing it, could increase the total number of visitors who come to Northern Ireland and increase business linkages. It may also reduce the number of travellers who are already displaced and may be going elsewhere — Dublin airport, etc — to avoid the tax. As I understand it, in central Europe — in the Dutch, Danish and Belgian cases — the main displacement was to Sweden, which had no APD and was easy to get to. Have any figures or estimates been made as to the number of travellers who are being displaced to Dublin because of the disparity in APD between Belfast and Dublin?

Mr Wilson: I do not know. There must be figures about the number of Northern Ireland registered people who travel through Dublin, but I do not think we have them.

Mr Pauley: We certainly have not examined them in any structured way to look at who is travelling from where through which airport.

Mr Wilson: I suspect that it would be difficult anyway, Roy, to differentiate between those who travel from Dublin because there is no air passenger duty and those who do so because there is no other service other than from Dublin. There is a multiplicity of reasons about why people might travel from there. Tax might be one reason. Others are the availability of flights, their timing, how easy it is to collect people from the airport as compared to how it would be if they flew from Manchester or Gatwick, etc.

Mr Beggs: In the past, DETI had a new route development system to encourage new start-ups. Are you looking at the possibility of using that type of system, whereby limited support might be made available for specific encouragement of developing new routes?

Mr Wilson: I am reluctant to answer that question. I am not even too sure that that is legal anymore. It is an issue for DETI. Bill, are you aware of that?

Mr Pauley: State aid rules changed, and made such route development from funds illegal in Europe. However, Europe is reconsidering that position. The aviation strategy that the Government published in June said that the Government were putting their position to Europe. They felt that some limited use of such funds should again be permitted. However, first, Europe needs to change its rules. I do not know the details of what is meant by some limited use. At least, it was encouraging that the UK proposed in its aviation strategy that it should again be possible to use such a system.

Mr Girvan: Thank you very much, Minister. I want to ask about whether a reduction in APD could and would be passed on, necessarily, to the end user. Could it be swallowed up and used by the provider, the airline, to increase its profits? I wonder whether that happened in the past. When APD was reduced and taken off Continental long-haul flights, was the end price reduced by the subsequent amount and passed on to the end user?

Mr Wilson: Let us be honest about our reasons for doing that. Our reasons were to ensure that Continental's route stayed profitable. Continental said that it was losing whatever it was — £3 million — per year. Reducing the APD reduced the cost that Continental had built into it. I suspect that, in that case, it was not passed on to the consumer and the consumer paid the same price. However, Continental was able to make the route profitable.

I do not think that we ever promoted this as a way of making it possible for people to get cheaper flights to New York. It was a case of how we make a route more profitable or stop a company from pulling out because it is making such big losses.