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Bob Harper

Further information on Air Passenger Duty

Issue: Have any European countries successfully attached conditions on airlines in return for reduced Air Passenger Tax?

This briefing note looks at issues surrounding the conditions which have been attached to airlines, and airport operators, in instances where European governments have considered reducing or abolishing Air Passenger Tax. Due to the limited number of countries that impose such a tax, this response also looks at European countries where the tax has been abolished for reasons other than airline cooperation.

The note is intended to facilitate the work of the Committee for Finance and Personnel in this area.

Ireland

In December 2010 the Minister of Finance (the late Mr Brian Lenihan) made comments about the reduction of Irish Air Travel Tax (ATT) from €10 to €3 (which still holds in RoI):¹

But let me be clear: this reduced rate is being applied on a temporary basis until the end of 2011 [...] The position will be reviewed next year, and the

¹ *Irish Times*, 7 Dec 2010 <http://www.irishtimes.com/newspaper/breaking/2010/1207/breaking60.html> (accessed 4 May 2012).

rate will be increased unless there is evidence of an appropriate response from the airlines. I do not want to see the reduction in the tax being used by airlines as an opportunity to raise their fees and charges.

The rate was reduced in March 2011. That year saw an increase of 468,000 visitors to Ireland on the previous year. However, there was a decrease of 279,000 visits made abroad by Irish residents.² The reason for the increase may be attributed to the rate reduction; however, other factors, such as the recession and emigration/immigration, may also influence it. Available information sources at the time of compiling this note were inconclusive about the specific reason(s) underlying the decrease.

Answering a written question on agreements between airlines and the government on the proposed abolition of Air Travel Tax, in July 2011 the new Fine Gael Minister for Transport, Tourism and Sport (Deputy Leo Varadkar) said:³

Deputy Thomas P. Broughan asked the Minister for Transport, Tourism and Sport the position regarding the measures to abolish the air travel tax under the recent jobs initiative; if an agreement has been reached with the airlines in terms of a targeted increase in passenger volumes as a quid pro quo for the abolition of the air travel tax; the terms of that agreement; when it will come into force; and if he will make a statement on the matter. [21742/11]

Minister for Transport, Tourism and Sport (Deputy Leo Varadkar): In the recent Jobs Initiative, I announced a three-pronged strategy to encourage inbound tourism. The first element is the proposed suspension of the air travel tax, the second is a new growth incentive scheme which has been introduced by the Dublin Airport Authority and the third is more targeted co-operative marketing of new routes from key source tourism markets by Tourism Ireland, Dublin Airport Authority and the airlines to encourage more tourists to fly into Ireland.

My officials and I have engaged with the Dublin Airport Authority and with the four main Irish airlines about these initiatives and I also wrote to all of the other airlines operating services to and from the State airports. Some proposals for additional capacity and new routes put forward are being examined by my Department and by external consultants to assess their potential impact. I will await the outcome of that assessment and responses from other airlines before making a recommendation to my Cabinet colleagues on whether or not to suspend the tax. The recent enactment of the Finance (No. 2) Act 2011 has provided the basis for the suspension of the air travel tax if we decide to do so.

Following up on this a few months later, Deputy Vardkar said:⁴

² [Central Statistics Office](#) (accessed 4 May 2012). Note that these figures include air travel and other forms of travel.

³ Dáil Éireann, *Written Answer*, 20 Jul 2011 <http://debates.oireachtas.ie/dail/2011/07/20/00253.asp> (accessed 4 May 2012).

⁴ Dáil Éireann, *Written Answer*, 27 Sept 2011 <http://debates.oireachtas.ie/dail/2011/09/27/00423.asp#N2> (accessed 4 May 2012).

I made it clear from the outset that the proposed suspension of the travel tax would be contingent on a positive response to the initiative from the airlines in terms of restoring routes and capacity. My officials and I held discussions with Ryanair and Aer Lingus about what additional capacity the airlines would be prepared to deliver in return for the suspension of the tax and I also wrote to all of the scheduled airlines operating services to/from Ireland advising them of the Government's proposals and inviting them to engage with the Dublin Airport Authority to establish what new services they might introduce or reinstate taking advantage of the incentives on offer from the Government and DAA.

However, the response of the airlines was disappointing. I engaged independent consultants to examine the most significant proposals that were put forward, particularly from the point of view of their potential to increase inbound tourism. These proposals and the overall response of the airlines was not sufficient to persuade me to abolish the tax. I announced my decision in August and I said that I would look at the issue again early next year when I see the airlines proposed schedules for the summer 2012 season. With the agreement of the Ministers for Finance and Public Expenditure and Reform, half of the revenue that will be generated by not suspending the tax will be made available for a targeted co-operative marketing effort in conjunction with the airlines, airports, ferry companies, tour operators and others.

The Irish Government's offer to completely abolish Air Travel Tax after its reduction to €3 was clearly a conditional proposal. As the Minister found that the airlines' response was "disappointing" and "not sufficient", the decision was made to continue with the tax. The Government is still open to discussion and to abolishing the tax, if an agreement with the airlines can be found.⁵

However, half of the revenue from ATT (app €9m) was used in the "targeted cooperative marketing" of routes bringing inbound traffic and tourism to Ireland.⁶

Holland

In July 2008 the government in the Netherlands introduced an Air Passenger Tax (€12.50 within Europe; €47.50 outside). It was set to a zero-rate in July 2009, and subsequently abolished, due to the very negative effect it had on air travel within Holland (travellers instead opted to fly from German, Belgian and French airports).⁷ In order to encourage a 'return' of passengers to Holland, the government cut the tax on the condition that the main airport, Amsterdam Schiphol, cut its fees in order to gain back flyers:⁸

The Dutch government terminated the air passenger tax on the condition that Schiphol airport reduces its costs. (Dutch Parliament Reports II

⁵ Dáil Éireann, *Debates*, 6 December 2011 <http://debates.oireachtas.ie/dail/2011/12/06/00010.asp#N31> (accessed 4 May 2012).

⁶ *Irish Times*, 20 Feb 2012 <http://www.irishtimes.com/newspaper/ireland/2012/0220/1224312051711.html> (accessed 4 May 2012).

⁷ KiM Netherlands Institute for Transport Policy Analysis, *Effects of the Air Passenger Tax*, February 2011, pp 43-53.

⁸ KiM Netherlands Institute for Transport Policy Analysis, *Effects of the Air Passenger Tax*, February 2011, p 69.

2008/2009, 29 665, nr. 139). In January 2009, Schiphol airport, as part of a reassessing of its strategy, decided to reorganize the company, which led to staff reductions of some 25%. In addition, expenditures on insurance and security were cut as well. The initial investments planned for the main port for 2009 to 2014 were also reduced from 2.6 billion euros to 1.6 billion euros.

Schiphol subsequently cut its costs, allowing the level of airport fees charged to passengers to drop relatively, thus encouraging a return of passengers to the airport:⁹

These cost-saving measures allowed Schiphol to keep its fees at the same level as those of its competitors or to raise them at a lower rate than that of other airports. As of the summer of 2008, Schiphol was the airport with the second highest fees after London's Heathrow. But once the air passenger tax was set at zero as of July 2009 and its fees adjusted, Schiphol ranked fifth in the benchmark: Paris Charles de Gaulle, Frankfurt and London Gatwick became more expensive than Schiphol (Zuidberg, 2009). A positive effect on the 'return' of passengers could be expected from these relative price improvements.

Belgium

The Belgian government scrapped its Air Travel Tax in 2008, only 24 days after introducing it, due to massive protest from airlines, airport and passengers. An online petition to stop the tax gathered 36,000 names in just two weeks.¹⁰

The tax was to stand at €10 for short haul flights, rising to €50 for intercontinental travel.

Denmark

Denmark phased out its Air Passenger Tax in 2006-07, after a strong response from the business and labour market lobby to a government initiative to abolish the tax.¹¹

The Øresund Bridge-tunnel – opened in 2000, linking Copenhagen to southern Sweden – had created a larger catchment area for Denmark's main airport, Copenhagen Airport (the busiest in the Nordic countries).¹² As a consequence of the tax, many passengers defected to Sweden's Malmö and Göteborg airports.¹³

France

Since 2006, France implements a charge of €1 on flights within the EU and €4 outside in economy class, rising to €10 and €40 in first/business class. However, the proceeds of this

⁹ KiM Netherlands Institute for Transport Policy Analysis, *Effects of the Air Passenger Tax*, February 2011, p 69.

¹⁰ <http://www.takingupresidence.com/belgium/transport/air-ticket-tax-defeated.3.html> (accessed 4 May 2012).

¹¹ Københavns Lufthavne <http://www.cph.dk/CPH/UK/Newsroom/News/2004/Danish+passenger+tax.htm> 9 Nov 2004 (accessed 4 May 2012).

¹² <http://www.anna.aero/2008/02/08/denmark-travel-tax-removal-helps-stimulate-network-growth/> (accessed 4 May 2012).

¹³ KiM Netherlands Institute for Transport Policy Analysis, *Effects of the Air Passenger Tax*, February 2011, p 20.

tax go to Unitaïd, helping with healthcare development in the Third World.¹⁴ Due to the purposes and relatively low rate of this “ticket solidarity levy”, there is little opposition to it from within France. A number of other international countries also use this method of air ticket donation to Unitaïd.¹⁵

Sweden

Sweden previously had a tax on domestic air traffic from 1989, which was abolished in 1997. In 2006, the government proposed a tax, similar to UK APD, to take effect from 1 January 2007, ranging between €10 and €45.¹⁶ A change of government, however, led to the withdrawal of this proposal.¹⁷

Conclusions

The following key observations can be drawn from the above information:

1. In the example of Ireland, the government requested action from airlines (Ryanair and Aer Lingus, mainly) to promise additional flights for passengers, thus ensuring that all passengers benefit from a conditional proposed cut in Air Travel Tax (currently at its reduced rate of €3 on all flights). After a limited response from the airlines concerned, the Minister for Transport, Tourism and Sport did not believe these conditions had been met. He felt that it was not the right time to abolish ATT, though he would review the issue in the near future.

Instead, half of the revenue raised by the continuing tax was used in to fund the marketing of new routes bringing inbound visitors to Ireland.

Though not a successful venture into attaching conditions to an abolition of the tax, the Irish Government has made a commitment to ensuring that action by the airlines, leading to economic growth, is recompensed by a negating of the tax.

2. In the example of Holland’s short-lived tax, the Government sought that Schiphol airport authority reduce its costs in return for dropping the tax which would benefit the number of passengers travelling through the airport. This happened, leading to a relative reduction in airport fees paid by passengers, aiding a ‘return’ of passengers who had been put off by the tax and cost of airport fees in Holland.

Holland’s experience in getting the airport operator to agree to cost reductions could be seen as a success; however, one could argue that the tax was due to be abolished anyway as it had had such a negative effect on air passenger numbers.

3. Belgium did not get so far as to introduce an air travel tax as it faced large-scale protests from airlines, airports and passengers.

¹⁴ France Diplomatie, [UNITAID, the International Solidarity Levy on Air Tickets](#), 23 March 2007 (accessed 9 May 2012).

¹⁵ Chile, Madagascar, Côte d’Ivoire, Democratic Republic of Congo, Mauritius, Niger and South Korea. <http://www.unitaid.eu/supporters-mainmenu-64/donors-mainmenu-122> (accessed 9 May 2012).

¹⁶ UCD, <http://www.economicinstruments.com/index.php/climate-change/article/62-> (accessed 4 May 2012).

¹⁷ <http://www.transportenvironment.org/news/swedish-air-ticket-tax-scrapped-new-government> (accessed 4 May 2012).

Potential issues for consideration

Subject to the devolution of Air Passenger Duty to NI, and future consideration given to devolving short haul rates of duty, the Committee for Finance and Personnel may wish to:

1. Examine the possibility of lowering/abolishing the rate of APD with a conditionality that airlines:
 - a. Increase the number of direct routes to/from Northern Ireland;
 - b. Deliver a cost decrease in ticket prices for customers at least equal to the rate of APD, or deliver further cost reductions; and/or,
 - c. Increase the number of passengers travelling to NI.
2. Examine the possibility of lowering/abolishing the rate of APD with a conditionality that airport operators:
 - a. Seek to lower costs and increase their sustainability; and/or,
 - b. Reduce airport fees charged to passengers.
3. Examine the possibility of keeping APD at current rates, or lowering APD, in exchange for the creation of a cooperative fund between airlines, airports and the NI Executive which seeks to market tourism and bring more routes into NI.
4. Lower/abolish APD without any conditions attached.
5. Keep APD at current rates without any conditions attached.