



Northern Ireland
Assembly

Committee for Finance and Personnel

**OFFICIAL REPORT
(Hansard)**

**Air Passenger Duty: Legislative Consent
Motion**

14 March 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Conor Murphy (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mr Leslie Cree
Mr Paul Girvan
Mr David Hilditch
Mr William Humphrey
Mr Ross Hussey
Mr Paul Maskey
Mr Mitchel McLaughlin
Mr Adrian McQuillan

Witnesses:

Mr Bill Pauley	Department of Finance and Personnel
Mr Tony Simpson	Department of Finance and Personnel

The Chairperson: I welcome Tony Simpson, who has joined us from strategic policy division, and Bill Pauley will continue to give evidence. This is an initial briefing. Although it is not legislation, it is a legislative consent motion. There is legislation going through Westminster, which we will have an eye to, and we may take evidence sessions in order to make a report to the Assembly. I invite you to make your opening remarks.

Mr Bill Pauley (Department of Finance and Personnel): There is a Programme for Government commitment to reduce air passenger duty (APD). The Chancellor agreed to the devolution of those powers for direct long-haul flights from Northern Ireland last September, and, in December, it was confirmed in the Government's response to their own wider consultation on air passenger duty. The Chancellor also announced that air passenger duty for such flights would be reduced to the lower short-haul rate from 1 November 2011. In referring to the September launch by the Chancellor, the notes to editors section of his press release indicates that the cost of reducing air passenger duty in Northern Ireland will, ultimately, fall to the Northern Ireland Executive, in accordance with the requirements of EU law on devolved taxes. Therefore that was a consideration in our work.

The Minister wrote to the Committee on 5 March and attached the draft clauses of the 2012 Finance Bill relating to air passenger duty in Northern Ireland. There are two parts to it. The first is the legislation that gives effect to the cut in air passenger duty here with effect from 1 November 2011, which states that its policy objective is twofold. First, it will help to maintain the vital link to North

America; secondly, it will create a fresh opportunity for airlines to develop new long-haul routes to support business and tourism efforts here.

That section of the legislation also estimates the costs of the measure as negligible in 2011-12, where it applied from 1 November 2011, and negligible in 2012-13, with £5 million per annum in the years after that. We understand from our discussions with the Treasury that those are rounded figures, and, in publishing national estimates in this context, £5 million is one of the smallest figures that we seek from Treasury.

We do not have to do anything with that part of the legislation through consent motions; that is simply giving effect to the Chancellor's decision to reduce that from 1 November. However, we have included it in what we have sent to the Committee to show how it is being given effect to in Northern Ireland, and it also has the cost estimates within those £5 million figures.

The second part was not published by the Treasury until 21 February; it is the part of the legislation that will devolve powers to the Assembly. It states that it gives:

"complete fiscal autonomy to set APD rates for all direct long haul flights."

Fiscal autonomy is the language of the Azores ruling, so it demonstrates that we are complying with that ruling.

It says that we will have those powers when the Finance Bill 2012 gets Royal Assent. It shows the costs of the devolution bit as being negligible in that part of the legislation. That is because the difference in the rates is the difference between band-B and band-A rates, which is £5 million for the reduction that applied from 1 November. After that, the costs of taking away the current rate of £12 will rise to £13 after April for each passenger or reduce it to zero. The Government estimate it as negligible in UK numbers as opposed to our numbers. It is worth mentioning, too, that it amends the 1994 Westminster legislation that introduced air passenger duty, but there are also some amendments to the definition of chargeable aircraft. As part of its wider consultation on air passenger duty, the Government will tax business jets as well. There are defined tonnages of jets, but, in effect, the taxation of business jets is to be introduced. It will also define some of the passengers. That is interesting for us in that an amendment is being made so that our tax base is exactly reflective of the tax base in the UK. We in Northern Ireland will not have any powers on air passenger duty other than to vary the rate, so the tax base to include business jets will be the same as for other parts of the UK. We will only be varying the rates.

The Minister's letter, as you indicated Chairman, states that he is seeking the views of the Committee on legislative consent to the motion, and he wants that before bringing a paper to the Executive in early April. We understand that the Finance Bill 2012 is to be laid before the 29 March, according to current plans, following the Budget next week.

The Chairperson: Thank you. The purpose of this is to set the rates for air passenger duty, and the references are to long-haul direct flights. Is there any restriction on the Executive to examine the idea of broadening the scope in relation to other flights other than long-haul direct flights?

Mr Pauley: This legislation is proposed for direct long-haul flights only.

The Chairperson: If the legislation goes through as drafted, will it narrow the band of flexibility for the Executive to look at other types of flights such as short-haul, domestic or flights on the island?

Mr Pauley: We do not have devolved powers to deal with flights other than direct long-haul flights. Band-A flights are typically short-haul flights of fewer than 2,000 miles as measured from capital city to capital city. In UK terms, that means from London to the capitals of other countries less than 2,000 miles distant; that rate is not being devolved at all. We have no influence. It is the same as how we might lobby on any tax issue.

The Chairperson: Did that come about because the initial concern that caused the movement around air passenger duty was about North American flights? Did that define the parameters, or have the Executive made a case for a broader scope for air passenger duty?

Mr Pauley: The answer to your first question is yes. The initial concern was for the direct flight between Belfast International Airport and Newark, as its loss seemed imminent unless action was taken. That was the nature of the correspondence between Ministers to Treasury Ministers to ask for action to be taken to avert that situation.

Those requests were made on the basis that the Government would take action in their own system to do that rather than as a request for the Executive to seek additional fiscal powers. It was made about a particular situation to avoid the loss of a route that was key to business and tourism links in Northern Ireland. We also did not particularly want to pay for any action unless we had to. That was what the correspondence primarily concerned, and we asked for action to be taken. The last paragraph of the letter stated that if it was not possible for the Government to take action that would alleviate that for us, that the power be devolved to us so that we could take our own action. Those are the origins of your question. That was accepted by the Chancellor as a strong case that it was an undesirable effect. He wanted to take action. However, EU state-aid requirements determined that the only way to do that was by devolving responsibility.

That takes me to your second point. There is a significant timing issue in trying to deliver that. There was an immediate requirement, to avoid the loss of the route, to take action quickly, which indeed the Chancellor has done with his announcement of the reduction of air passenger duty from 1 November 2011. However, we also need to have power to vary the duty devolved as quickly as possible so that we could reduce the rate to zero. The Chancellor's reduction was a first step, as I said in the introduction, in devolving corporation tax under the EU law on devolved taxation. We needed, and still need, to complete the second part of that as quickly as possible so that we can reduce the rate to zero as is indicated in the Programme for Government, and also so that we can stay within EU law by not having a differential tax system in the UK.

To devolve greater powers, it was considered that we may need to have an amendment to the Northern Ireland Act 1998 rather than be able to deliver a reduction solely through the Finance Bill 2012. No parliamentary time for an amendment to the Northern Ireland Act has been scheduled before the end of 2013. Ministers consider that period too long to take the action that we want to take on direct long-haul flights.

The Department of Finance and Personnel submitted a response to the Government's wider consultation on air passenger duty at the end of last summer. That made clear our views on air passenger duty generally: it is an unfair tax that affects the regions disproportionately, particularly regions such as Northern Ireland that have no rail and car options. We are restricted in that, and we asked that action be taken on it.

The Government's response to that document has been published and is on record. They say that they will return to the rebalancing issues. The devolution questions addressed in it were in respect not just of Northern Ireland but also of Scotland and Wales. The response pushed forward the issue: it did not say that the Government will not consider it again; however, I have not had any recent correspondence on the issue from the Government.

In the press, over the past few days and weeks, there has been lobbying for Budget measures in relation to this tax and others. There is an immediacy to what we want to do: complete the process of reducing it to zero and protecting what we have in direct long-haul flights. Hopefully, as outlined in the economic strategy document, we can use that to attract further opportunities for long-haul travel and international connectivity.

Mr Humphrey: Thank you very much for your presentation. You said that the national Government regard the figures as negligible. Is that simply because we have so few long-haul flights and so few people travel on them?

Mr Pauley: We reported to the Committee before this was published that we estimated that the cost of direct long-haul flights from Northern Ireland was about £3 million. That was based —

Mr Humphrey: Is that the cost of the current number of direct long-haul flights?

Mr Pauley: When I say the current tax take from air passenger duty on direct long-haul flights, I mean before 1 November 2011 when it was reduced.

Mr Humphrey: What am I getting at is the number of long-haul flights that leave Northern Ireland airports. That is what we are discussing.

Mr Pauley: There is a very small number of direct long-haul flights.

Mr Humphrey: Does that include chartered flights?

Mr Pauley: The estimated £5 million does, yes.

Mr Humphrey: You will be aware that a group of people led by Bill McGinnis tried to get flights to connect Northern Ireland to Europe and further afield; there was talk of a direct flight from Belfast to Atlanta, Georgia, with Delta Airlines. I think that the economic situation played a part in that. Could air passenger duty have blocked some of those flights from being secured and airlines from coming or introducing new routes?

Mr Pauley: I am not aware of that particular route. I have come to air passenger duty in the past year and a half to two years. I now know more about it than I had anticipated.

Mr McLaughlin: Now you are an expert.

Mr Pauley: I am completely certain that it was a significant factor with regard to the route that relates to this proposal. We know, too, that rates in the UK —

Mr Humphrey: Are you talking about the Newark route?

Mr Pauley: Yes. We know, too, that most other European Union member states do not have a duty that is similar to air passenger duty rates in the UK. The duty levels of those that do are much smaller in comparison, particularly for long-haul flights.

The rate of duty is £12 to travel less than 2,000 miles; however, it is £60 for band-B routes. For a family or couple, that becomes significant. A family of four would drive to Dublin to save £240, which they might not consider if the rate were £12. They might add the price of diesel or car parking. I am certain that it is a significant issue for our competitiveness with regard to the flight that we are discussing.

UK rates were high for flights before that. They are expected to rise. If we look at the Government's projections, we see that they will be increased from 1 April. We see that in other parts of the Finance Bill. Therefore, air passenger duty is a significant factor.

Mr McQuillan: Bill has partly answered the question that I was going to ask in his reply to William. What will the consequences be if we do not do introduce this measure? Will its introduction attract more long-haul flights?

Mr Pauley: Everyone agrees that the immediate consequence is the potential loss of the flight. Will we get other flights? We certainly hope so, as we will be more competitive. Over the years, there have been other flights. I am not an expert, but I remember an Aer Lingus flight that stopped in Shannon; some days it went to Boston and others to New York. As customers and consumers, we can remember that there have been other issues. There is more to it than air passenger duty. At present, however, air-passenger duty is an issue. We were left in no doubt that the flight would be lost without

this action. Indeed, Ministers are committed to its further reduction to zero when they have those powers after the Finance Bill is given Royal Assent.

Mr Girvan: Thank you for the document. There appears to be a direct correlation between the level of air passenger duty and the number of visitors, particularly when people can drive 80 or 90 miles down the road. I think that the Netherlands introduced it in 2008, and there was an extensive drop-off. It had introduced air passenger duty on its flights, but it took it away. Zoom flew from here to Toronto, and air passenger duty was one of the main reasons that it failed; it was competing against other areas. It would be foolish not to pursue this in order to encourage other inward investment, as it will open us up for tourism and gives us another opportunity for business links.

You mentioned the negligible point, which is where I really wanted to come to. You mentioned £5 million by 2014-15. Is that because there is an estimation that there will be an increase in the number of people who might be attracted to Northern Ireland because of the direct-haul flights, or is it on just the current provider, Continental?

Mr Pauley: I want to be careful not to talk about individual airlines. We are talking about one and a small number of chartered services that operate mostly in the summer; I think that there is an Orlando flight and a Canadian flight. More than one certainly benefit from the measure. The £5 million figure is a rounded one. It is sufficient to allow for any increases because the actual figure that the airline quoted was lower; we were told \$5 million. That can change with other issues, but that is the number that we expect that one flight to play. We could see the number of passengers that it had. I have not seen a published split, but we are looking at that type of number in relation to the scheduled service. There is other revenue from the chartered services. The band-A rate will go up from 1 April from £12 to £13, and that is included in the rounded £5 million figure. I hope that, in our discussions with the Treasury, we will play something more closely reflective of the actual tax take rather than a block adjustment of £5 million.

Mr Girvan: Has a calculation ever been made of the potential loss to Northern Ireland's economy if we lost a provider? I know that you do not want to go into detail, but what if we lost one of our providers? I am not talking about just air passenger duty. I am talking about the spend that would be calculated for those who would not necessarily make Northern Ireland their stop-off point; they will stop in Dublin and not necessarily make it into Northern Ireland. Has there ever been a calculation of the net loss to Northern Ireland's economy — £1 billion, or whatever — of the spend that they might generate?

Mr Pauley: I am not aware of a number, but there have been discussions about its significance and the importance of its being directed, particularly for tourism, to where people drive cars around the place where they land as opposed to driving further. Although some do. There have been discussions, but I do not have a number to set against £5 million.

Mr Cree: Air passenger duty is a self-inflicted injury. The paper tells us that the Government will collect £2.8 billion in extra tax and that it will cost some 91,000 jobs and £4.2 billion. It is hard to see the economic sense in that. I fully understand and support the North American route. However, since we are on the periphery of Europe, is there not an argument for reducing APD into Europe itself? Otherwise we are penalising ourselves.

Mr Pauley: The Department's position on the tax generally was quite strong in our submission to the Government. We do not believe this to be a fair tax or a tax that does anything other than damage us as a regional economy. It is not a tax that we like or appreciate.

That is the case that we will present to the Government. They intimated in their response to the consultation that they will keep the rebalancing issue on the agenda. However, the Government have also made it clear that this is a revenue-raising measure. It has its origins in environmental taxation, but it is no longer an environmental tax; it is a revenue-raising measure, and at present dealing with the deficit is the Government top priority.

Devolving all the air passenger duty costs would cost us some £60 million per annum. There would be a block adjustment to do that.

The Chairperson: That is if we went for zero on all flights.

Mr Pauley: Zero on all flights.

The Chairperson: Therefore there are levels of variation.

Mr Pauley: That is an estimate that we have before increases that may have been expected before the autumn statement last year. However, the ballpark figure is £60 million. As we contemplate other block adjustments, that is a significant sum that would have to be dealt with.

Mr Cree: We would have no costs, or no evidence of any costs to us, in Northern Ireland of the application of APD. I am thinking of all other routes except, of course, the long-haul one.

Mr Pauley: The £60 million would be Northern Ireland air passenger duty; it is an estimate.

Mr Cree: In total?

Mr Pauley: In total for all bands. It is significant.

Mr P Maskey: Is there any guarantee that the savings will be passed on to passengers? The airlines could increase their costs by an additional £60 and make more than an additional £60 profit. Has there been any discussion about that with the airlines?

Mr Pauley: I think that the company would argue that it has had to set the lower price to attract passengers at all and that the route has been loss-making to about precisely the same amount as the air passenger duty.

Mr P Maskey: You made the point about families having to drive to Dublin to save themselves £240. That may not necessarily be the case because it would be the same cost.

Mr Pauley: No, that has not been the case while we had that flight from Belfast. I have not personally looked at Continental Airlines to see how prices from Dublin and Belfast have moved, tracked or been reflected within that. However, I think that they would argue that they would not now be reducing prices because they have had to keep them low and make a loss in order for the route to exist rather than after we reduced the air passenger duty they would be able to make a further reduction.

Mr P Maskey: I am in favour of it, but I do not want to send out mixed messages that there will be cheaper fares because that may not necessarily be the case. We have to get our facts right.

Mr Pauley: If we are talking about a single airline. However, that one would probably argue that the cheaper fares already exist and they are making a loss that they could not sustain and keep the flight operational. They would have to close the flight with that loss.

Mr P Maskey: I appreciate that.

The Chairperson: Thank you very much. For the Committee's purpose, can I seek agreement that we will invite written and oral evidence from key stakeholders on the Committee's website and publish DFP briefing papers on air passenger duty that would be relevant to any witnesses invited to give evidence?

Members indicated assent.

The Chairperson: Can I seek agreement for evidence sessions to be scheduled with key stakeholders, including representatives from the airlines, airports, tourism industry and relevant economists, including PwC, which has already sent us a paper?

Members indicated assent.

The Chairperson: Can I seek agreement to commission research into the issues arising from the devolution of air passenger duty?

Members indicated assent.

The Chairperson: I advise the Committee that we have a hectic work schedule; we may need to hold additional meetings to agree the Committee's report in the limited time frame available. However, we will address that as we come to it. Thank you very much.