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Mr Shane McAteer
Clerk
Committee for Finance and Personnel
Room 419
Parliament Buildings
Stormont

Our Ref – CFP106/11-15

1 May 2012

Dear Shane,

At its meeting on 18th April 2012, the Committee agreed to write to the Department on several issues relating to the proposed Legislative Consent Motion on the devolution of Air Passenger Duty (APD).

Scottish Highlands and Islands APD Exemption

The issue of the APD exemption for flights departing the Scottish Highlands and Islands and the possibility of extending this to Northern Ireland was raised at official level in discussions between DFP and Treasury at an early stage in the process. At that time DFP was advised that this particular exemption was introduced in recognition of the extremely low population density of the islands and the heavy reliance on air transport in that remote region of the UK. A similar exemption for Northern Ireland was not considered workable as the low population density argument was and is not applicable locally.

Previously (and as highlighted in the NI Affairs Committee Report "*Air Passenger Duty: implications for Northern Ireland*"), the idea of an exemption from APD for Northern Ireland has been raised and discounted in the past. In a House of Lords debate in April 2000 the late Lord McIntosh of Haringey argued on behalf of the Government that:

"The exemption from Air Passenger Duty for flights from airports in the Scottish Highlands and Islands is being introduced in recognition of the reliance on air transport by many people in this remote region. It is the only UK region with population density less than 12.5 people per square kilometre. The people of Northern Ireland do not depend on air transport for aspects of everyday life to the same degree."

In the context of the very immediate threat to our air service connectivity with North America as a consequence of APD, Government Ministers recognized

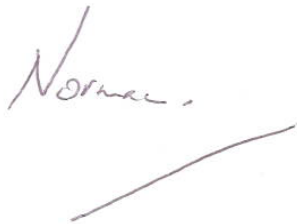
the difficulty we faced and Treasury sought to find a solution within EU state Aid rules. The Treasury response to the case for Northern Ireland being granted an exemption from APD as opposed to devolution was that despite extensive discussions with the EU no such solution could be found and that the devolution approach offered the most secure and legally sound approach available. This is evident in the way in which the Chancellor announced the reduction in rates from the 1st November 2011 where this is clearly set in a context of being a first step in a process of devolving powers in a way that would be consistent with EU Azores requirements.

Research / business case for wider reduction in APD rates

DETI undertook an analysis of APD rates and Northern Ireland passenger numbers in May 2011. While this stopped short of a full business case, it was used to inform the response that DFP made to the Government's full consultation on APD.

The analysis suggested that while it was not possible to draw definitive conclusions regarding the rate of APD and passenger numbers to and from Northern Ireland, the case for reducing APD was stronger for the long haul routes than those within Band A.

Yours sincerely,

A handwritten signature in blue ink that reads "Norman". Below the signature is a long, horizontal, slightly curved line, likely a flourish or a separator line.

NORMAN IRWIN