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# *Helping economic take off*

## Devolving Air Passenger Duty

**NI Futures**  
*Infrastructure  
and Transport*

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**pwc**

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## About NI Futures

Welcome to the latest of our NI Futures (formerly *Government Futures*) series, in which we examine a range of public policy issues that are central to Northern Ireland's future prosperity and well-being.

Whilst the debate around Corporation Tax continues, largely as a single issue campaign, consultation around the Treasury document, *Reform of Air Passenger Duty: response to consultation* has closed. Some responses to the Air Passenger Duty (APD) consultation, including our own and that of the Department of Finance and Personnel (DFP), have proposed devolving the power to set and vary APD to the Northern Ireland Assembly. The Coalition government published its response to the APD consultation on 6 December 2011.

Ahead of that, on 27 September 2011, the First Minister and the acting Deputy First Minister were able to announce a reduction of the APD rate on Northern Ireland's single air route to North America. This had been agreed by the Chancellor of the Exchequer with Treasury at that time agreeing to “...begin the process to devolve APD to the Assembly”.

The draft Finance Bill, published on 6 December 2011, suggests that the Government and Treasury propose to deliver on this undertaking in respect of long-haul flights insofar as the draft Bill states “...the reduced rate for direct long-haul flights from Northern Ireland, which has been in place since 1 November 2011, will be given statutory effect.”

However, the language in the draft Bill cannot be taken as a clear indication that the Assembly will get the devolved power to set and vary APD as strongly hinted in the Chancellor's 27 November statement. This NI Futures outlines why there is a convincing

case for the Executive to take that power and, indeed, use it to reduce (perhaps to zero) the rate of APD for all air routes from Northern Ireland.

Westminster also seems to be minded to devolve this tax varying power to the Scottish Government. Devolving a similar tax varying power to Stormont would be another example of how wider fiscal devolution would let the Assembly make locally informed decisions about local problems – even where the cost of reducing, increasing or cutting taxes entirely would be borne by the local administration.

APD may not be either a particularly well known or well understood tax, but it should be. Thanks to the differential rates of European APD, a French family of four flying economy within Europe pays the equivalent of £8 in tax for the return journey, while a UK family currently pays £48.

With air travel likely to become even more expensive from next year as airlines are compelled to join the European Emissions Trading Scheme, the rate of APD has the potential to help or hinder, accelerate or contract, both business recovery and the Northern Ireland tourism industry, where more than 40,000 jobs are at stake. Mintel's latest lifestyle survey<sup>1</sup> confirms a steep fall in holidaying abroad by air, with overall spending in 2010 down £398m on the 2009 figure. This may have contributed to the estimated £500m shortfall in total UK APD receipts, theoretically necessitating a 25% increase in APD by 2015 if Treasury is to meet its APD receipts target of £3.6bn.

It was also confirmed in the draft Finance Bill on 6 December 2011 that HM Treasury will not offset revenues raised through the Emissions Trading Scheme (ETS) against APD. This means that

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<sup>1</sup> Mintel 2011, British Lifestyles 2011.

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## ***About NI Futures***

those airline passengers will effectively be taxed twice from January 2012.

APD also has the potential to help focus and crystallise the debate around devolution of wider tax varying powers to the regions. If it is appropriate to devolve the power to set and vary Corporation Tax and Air Passenger Duty to the Northern Ireland Assembly, what other taxes might it also be right or appropriate to devolve?

When Scottish First Minister Alex Salmond attended the British-Irish Council meeting on 21 June 2011, just a day before the Scotland Bill was due for its third reading in the House of Commons, he set out the case for the Scottish Parliament to receive greater economic powers than those contained in the Bill.

The Scottish Government put the coalition Government on notice that it sought amendments to the Scotland Bill in respect of borrowing powers, the Crown Estate, excise duty, corporation tax, broadcasting and an enhanced role in Europe. These have now been encapsulated in consultation conducted by the new Scotland Bill Committee, which closed on 9 September 2011.

In this regard, the Scottish government has clearly seen the importance of setting and varying APD as a driver of tourism and business development, even if the consequential cost has to be borne elsewhere in the Scottish Budget.

Getting APD devolved, or abolished entirely – as already is the case with airports in the Highlands and Islands – is a priority.

Given Northern Ireland's peripheral position, penalising business travellers, families and tourists as they leave local airports encourages neither the business nor tourism traffic the region so badly needs.

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As senior lecturer in economics in Queen's University Belfast (1999-2002) he was co-author of seven books on aspects of competitiveness, productivity and environmental outcomes of various western and eastern European economies.

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Northern Ireland's physical isolation from the rest of the UK is a natural disadvantage, forcing travellers to use air travel, regardless of the extra cost imposed by APD, which, it might therefore be argued, amounts to a discriminatory tax.

Furthermore, the land border with the Republic of Ireland, where the existing air tax of €3 was to have been abolished (but where the date, or even certainty, of abolition now remains in doubt), confers significant disadvantage on the (single) existing Northern Ireland-USA long-haul carrier and may threaten the viability of the Newark route even despite the Government's decision to cut APD on long-haul flights from Northern Ireland. In addition, the continued imposition of APD will serve as a significant disincentive to further investment by existing or new carriers in existing or new air routes

In line with the experience of Dublin vs. Belfast, we are also conscious of the Netherlands experience, where the Dutch government introduced an aviation tax in 2008. This raised around €380m but resulted in an 8% decline in passenger numbers at Schiphol Airport and an exchequer loss of around €1bn as travellers exiting the Netherlands crossed land frontiers to fly out of other airports. The tax was subsequently scrapped.

Throughout the debate around APD there has been an absence of any reference to, or application of, elasticity of demand (the sensitivity in demand for a product or service to a change in the product's or services' own price) in respect of air travel pricing.

However, a review of studies by the Canadian Department of Finance<sup>2</sup> took various categories of Canadian origin air routes e.g. international, long-haul domestic, short-haul domestic (also differentiating leisure and business).

Perhaps most relevant to the Northern Ireland situation is the Canadian review of short-haul business and leisure, where these demonstrated price elasticities of negative 0.7 and negative 1.5 respectively, implying an air travel price elasticity of negative 1.0 (i.e. 10% increase in price creates a 10% decrease in demand).

Based on those Canadian studies it could therefore be argued that if APD adds around 10% to a £200 return Belfast-London ticket, then demand goes down by 10% (all other factors being equal).

Northern Ireland tourism, which employs around 40,000 people<sup>3</sup> (of which 30,000 are employed outside the Belfast Metropolitan area), relies on air transportation and the achievement of tourism growth targets will be threatened by APD in the region. In addition, air travel remains the most common means of entry into Northern Ireland, with almost three quarters (74%) of overnight visitors and 34% of day trippers arriving by air.

Some 68% of visitors from North America and 75% from the rest of the world entered Northern Ireland directly in 2009.

Some six million US citizens claim to be of Scots-Irish (Ulster Scots) lineage<sup>4</sup>, although the actual figure may be several times higher, with 2.5 million Canadians also claiming Ulster heritage.

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<sup>2</sup> Air travel demand elasticities: Concepts, Issues and Measurement. Department of Finance, Canada 2008. ([http://www.fin.gc.ca/consultresp/airtravel/airtravstdy\\_1-eng.asp](http://www.fin.gc.ca/consultresp/airtravel/airtravstdy_1-eng.asp))

<sup>3</sup> National Guidance Research Forum based on the Northern Ireland Skills Assessment 2010 estimates the sector employs 44,000 workers.

<sup>4</sup> According to (former) US Senator Jim Webb, 27 million Americans claim Scottish including Scots-Irish ancestry; J Webb 2004, *Born Fighting, How the Scots-Irish Shaped America*, Broadway Books, New York.

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Targeting these groups, while a priority for the Northern Ireland Tourist Board, is already hampered by the lack of direct routes. For these groups, APD represents a further disincentive to travel.

In 2012, Belfast will recall the centenary of the sinking of the Titanic on her maiden voyage to New York. The £97m Titanic exhibition centre expects half a million visitors in 2012 alone. Add a new visitor centre at the Giant's Causeway World Heritage site, a peace bridge across the River Foyle in a rejuvenated Londonderry/Derry and the 2012 London Olympics and the local tourism industry is expecting a very good year indeed.

Nearly a third of a billion pounds has been invested in Northern Ireland tourism infrastructure and collectively Northern Ireland's tourism chiefs hope that this will attract more visitors in 2012, persuade them to stay longer and spend more – and then come back and do it again. Reducing and stabilising APD is an essential factor in enhancing the visitor experience, air route operator confidence and tourism prosperity.

In addition, in 2013 Northern Ireland will play host to the World Police and Fire Games, where an estimated 10,000 visitors and 15,000 competitors will travel to the region. Delivering a great visitor experience at a competitive cost will influence both visitor numbers and repeat visiting behaviours and a low or nil level of APD at that time would be a persuasive argument to those 25,000 visitors.

However, the Chancellor has acknowledged that “... APD is fundamentally a revenue-raising duty and currently raises around £2.5bn a year<sup>5</sup>”, and that may well colour his judgement.

If the power to set and vary APD was devolved to the Assembly, it would likely be on the same basis as Corporation Tax – the tax forgone (to Treasury) would come off the Northern Ireland block grant, thus leaving the Executive to decide what other taxes would be raised, or spending curtailed, to fund a reduction in APD.

Whilst the announcement on 27 September 2011 that APD is to be reduced on Belfast's transatlantic route is welcome, the Chancellor's Autumn Statement on 29 November 2011 confirmed a substantial rise in APD in 2012 and this will further add to the cost of business and visitor travel.

And while this would be unwelcome for Northern Ireland, there is a wider point at issue, which relates to the principle of devolving tax varying powers to the devolved regions of the UK. We believe that a variety of essential tax varying powers such as APD could be devolved to the Northern Ireland Executive as part of the process of devolving the power to vary the rate of Corporation Tax and potentially a number of other taxes.

We conclude that:

- the impact of APD on the competitiveness and growth prospects of the Northern Ireland economy is of vital importance and 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.

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<sup>5</sup> Letter of 12 August 2011 to Olivier Jankovech, Director general of the Airports Council International.

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- Northern Ireland should either enjoy a full derogation in respect of APD (as is the case of the ten Scottish Highlands and Islands airports), or the powers relating to APD should be devolved to the Stormont Executive.
- since such devolution would then give the Executive the option of a reduction in, or total removal of, the rate, we believe that devolution would reflect the Government's current thinking in consulting on the devolution of the power to vary Corporation Tax.



## Background – What is Air Passenger Duty?

APD was introduced by the Conservative government in 1994 as a £5 charge for short-haul and £10 for long-haul flights. APD is an excise duty, which is levied on the carriage, from a UK airport, of chargeable passengers on chargeable aircraft. It becomes due when the aircraft first takes off on the passenger's flight and is payable by the operator of the aircraft.

Initially the duty was based on the simple two band structure which distinguished between short and long-haul travel, but in 2001 a further distinction was drawn between 'economy' (the so-called 'reduced rate' tariff) and all other ('standard') classes of travel (such as Business Class and First Class).

In 2007, the Treasury forecast that that year's tax increase would cut carbon dioxide emissions by about 0.3m tonnes<sup>6</sup> a year by 2010-2011, and all greenhouse gas emissions by the equivalent of 0.75m tonnes of carbon dioxide per annum, although the environmental benefits of APD are not universally accepted. Indeed, it has been argued that current proposals to simplify the bands of APD could actually increase emissions<sup>7</sup>.

By 31 October 2009, there were four rates of duty dependent upon the class of travel and whether the destination was a specified European destination or any other destination. As part of the 2008 Pre-Budget Report, Air Passenger Duty was restructured to take distance into account, thus making long distance flying significantly more expensive.

Since 2010, the band and level of duty have been based on the distance between London and the capital city of the destination country or territory, with each band having two rates of duty depending upon the class of travel, as described above<sup>8</sup>. This is summarised in Table 1.

**Table 1: Current pricing bands for APD.**

Band	Distance (miles from UK)	Reduced Rate	Standard Rate
A	0 – 2,000	£12	£24
B	2,001 – 4,000	£60	£120
C	4,001 – 6,000	£70	£150
D	Over 6,000 miles	£85	£170

From April 2012, the Government proposes to create a further two band structure with the tax based on the distance travelled and the class of travel, as shown in Table 2.

**Table 2: Proposed pricing bands for APD from April 2012.**

Band	Distance (miles from UK)	Reduced Rate	Standard Rate
A	0 – 2,000	£13 - £16	£26 - £32
B	Over 2,000 miles	£66 - £75	£130 - £150

*Note: As of 5 December 2011, pre-dating any government announcement of the new rates*

<sup>6</sup> APD takes no account of the efficiency of the aircraft (or, how well those planes are filled). An airline using an old inefficient aircraft is treated equally to one using the latest, most efficient engines.

<sup>7</sup> A study commissioned by easyJet and undertaken by Frontier Economics (published in May 2011) says that, while the proposed APD changes will cut the number of trips taken each year by three million, the number of kilometres flown could increase by 2.5 billion, as the tax change proposal favours long-haul flights. According to the report, the changes would lead to an increase in CO2 emissions of up to 360,000 tonnes per year.

<sup>8</sup> There is something of what we might characterise as a Caribbean anomaly at work. This method of route distance calculation implies that a flight (departing London) to say, the West Indies, results in travellers paying more APD (or falls into a higher APD band) than a flight to, say, Los Angeles or Hawaii, even though the latter represents greater miles travelled.

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## *What's the big deal about APD?*

APD is payable on every flight departing a UK airport (with the exception of airports in the Scottish Highlands and Islands which are exempt from APD because they are deemed peripheral).<sup>9</sup>

Currently, a return trip between Belfast and a non-exempt UK airport adds £24 to the basic ticket price.

Under the Treasury proposals, APD will rise yet again in 2012, significantly increasing the internal UK cost of travelling to and from Northern Ireland and the cost of travelling out of Belfast to the USA and other long-haul destinations.

There are several reasons why APD has had a more negative impact on the Northern Ireland economy than would be the case for most other UK regional economies and regional airports. These include the following:

- **The geographical/physical separation from GB** means that travellers from Northern Ireland to elsewhere are more likely to be forced to use air travel regardless of the extra cost imposed by APD. This is particularly discriminatory where travellers (whether business or leisure), already disadvantaged by the absence of long-haul carriers, must fly from Northern Ireland to GB airports to continue with onward long-haul air transportation.
- We deal with the issues relating to the proximity to the Republic of Ireland (RoI) in a separate section below.

- **Threat to route connectivity.** Northern Ireland already suffers from limited long-haul international air routes, with only one route to North America (Continental Airline's Newark-Belfast International). The previously relatively high level of APD (compared to the low level of tax on flights through Dublin) threatened the viability of the Belfast-North America connection (where we understand Continental is currently absorbing the APD cost per traveller). The continued imposition of APD will also serve as a significant disadvantage to further investment by existing or new carriers in existing or new routes.
- **Threat to tourism.** Tourism has been identified as a sector with clear growth potential in Northern Ireland (according to the Northern Ireland Tourist Board, visitor numbers could be increased from 3.2m to 4.5m during 2010-20 alongside a growth in employment from 40,000 to 50,000). The APD reduces the cost competitiveness of this critical sector. (See separate section).

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<sup>9</sup> APD is not paid on flights departing from ten airports in the Scottish Highlands and Islands. These airports are: Barra, Benbecula, Campbeltown, Inverness, Islay, Kirkwall, Stornoway, Sumburgh, Tiree and Wick

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## ***How does Irish APD (or equivalent) compare?***

That's where the problem gets serious. In March 2009 the tax for passengers travelling from Ireland was €2 but if they were travelling more than 300km it was €10. This meant that most cross border flights were more expensive than those within the country, which was against EU rules intended to encourage travelling across borders within the European Union.

The European Commission threatened legal action against RoI. In response, in March 2011, the Irish government reduced its equivalent of APD tax to a unitary €3 and announced a proposal to abolish it completely at a cost of \$165m annually.<sup>10</sup>

We thus had a £57 cost wedge between a Belfast-North America air ticket compared to a Dublin-North America ticket. With most of the Northern Ireland population living within a two hour drive to Dublin airport, the imposition of APD on travellers leaving Northern Ireland was a disincentive to airline investment in Northern Ireland long-haul routes and constitutes a potential and significant loss of revenue within the UK.

Whilst the 27 September 2011 announcement is helpful, it still implies a tax wedge between Belfast and Dublin. Northern Ireland flights to the USA will now be taxed at the rate (economy class) of £12, increasing to £13 in 2012.

So, the continued imposition of APD in Northern Ireland combined with the absence of APD taxation in RoI will serve as a disincentive to further investment by carriers. (Ironically, notwithstanding the RoI's tax advantages, the RoI has seen some reductions in its international connectivity as Aer Lingus has cut some of its key routes to the US. This might prompt the question whether there could be mutual benefit in the Stormont Executive and the Dublin government in certain circumstances adopting a joint approach to maximise connectivity for the whole island?)

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<sup>10</sup> Quoted in Business Report on 7 June 2011, Giovanni Bisignani, the retiring director general and chief executive of IATA, told its annual general meeting "... *the Irish government is planning to cancel its \$165m travel tax because it has cost the economy \$494m and 3000 jobs.*" While the Irish Government announced the abolition of the €3 APD, this date of abolition has been postponed and it is increasingly likely that the €3 APD will remain for the foreseeable future.

## *The importance of tourism for Northern Ireland*

We are particularly concerned as to the potential impact on tourism in the context of a private sector economy that is performing well below the level of other UK regions, that is not demonstrating any real level of recovery, and that has lost some 35,000 jobs since the beginning of the 2008 downturn.

On the other hand, tourism currently employs some 40,000 people, around 30,000 of them in communities outside the Belfast Metropolitan area. Tourism offers considerable growth potential and now constitutes one of the largest employment sectors in the region.

A summary of recent tourism performance reveals that:

- steady visitor growth between 1999-2007, whilst encouraging, did not recover all the ground lost during the years of the Troubles.
- there has been a steady shift in the visitor profile, with visits from GB down by 20% in the past six year period; EU visits increasing; and US visitor numbers broadly steady, despite the exchange rate, access and security considerations.
- amongst visitors to the region, satisfaction levels are higher than those for England, Scotland, Wales and RoI when measured against Overall [visitor] Experience; [likelihood to offer] Recommendation; and [likelihood to] Revisit. Measured in terms of Competitive Advantage (i.e. price to the consumer), Northern Ireland scored second highest behind RoI but ahead of England, Scotland and Wales.<sup>11</sup>

Overall holiday visits are increasing but business trips have declined since 2004<sup>12</sup> and, while visitor numbers are growing, the key measure of expenditure per trip continues to lag behind other UK regions and RoI.

In the context of the potential growth of tourism and the likely economic impact of tourism on the local economy, the recent tourism strategy document<sup>13</sup> comments: *“We will double the income we earn from tourism by 2020... [and]... work together to grow tourism for the benefit of all”*. The objectives in this strategy include:

- increasing visitor numbers from 3.2m to 4.5m by 2020
- increasing tourism earnings by £480m to £1bn by 2020
- progressively accelerating visitor spending
- targeting specific markets and market segment
- supporting growth of high quality indigenous businesses

In addition, in 2009, 9.3m visitors to Belfast alone (an increase of 30% on 2008), spent £451m, supporting 10,148 full time jobs. Out of state visits in 2009 totalled 3.3m, with a value of £346m, a 6% increase in value from 2008.<sup>14</sup>

Excellent communications are key to sustaining Northern Ireland’s visitor growth. In this respect Belfast faced a challenging year in 2009, with passenger numbers on scheduled domestic air routes to GB declining. That said, air travel remains the most

<sup>11</sup> NITB. 2007, *TNS Visitor Survey*, Northern Ireland Tourist Board, Belfast.

<sup>12</sup> Year-on-year tourism performance for Q1 2011 suggests that business visitors are recovering slightly (up 12%), with modest decline in visitor numbers from North America (although spending from North American visitors remained static at c£3m for the quarter). There has been a distinct increase in incidences of visiting friends and relatives (VFR) trips (+19%)

<sup>13</sup> DETI. 2010, *Tourism Strategy for Northern Ireland to 2020*. Department of Enterprise, Trade and Investment, Belfast.

<sup>14</sup> Belfast City Council 2011, *Belfast 2009 Facts and Figures*.

## *The importance of tourism for Northern Ireland*

common means of entry into Northern Ireland, with almost three quarters (74%) of overnight visitors and 34% of day trippers arriving by plane. Ferries provided access to 6% of overnight visitors and 12% of day trippers.

Contrary to some suggestions, it is estimated that 80% of out of state overnight visitors and close to half of out of state day trippers (49%) entered Northern Ireland directly, rather than across the land border from RoI. However, RoI remains an important gateway for European visitors coming to Belfast, with 26% of them arriving in Belfast via the Irish land border. This compares to 32% of visitors from North America and 25% from the rest of the world who also entered Northern Ireland via RoI.

It is also worth noting the evidence of the Northern Ireland Assembly Regional Development Committee's review of Northern Ireland networks and gateways<sup>15</sup> in respect of air access to Northern Ireland which noted that *"...the market for the two Belfast airports doubled to eight million passengers between 1997 and 2007."* However, there was a reduction of one million in the past year or so due to economic reasons and other issues. Looked at positively, there is a big opportunity to claw back that market, but we are not immune to wider economic conditions.

The Committee concluded that the biggest loss has been that of airline business going to Dublin. *"... one of our key challenges is the disparity in air tax between Northern Ireland and the Republic of Ireland.."*

The Committee was told that, in terms of airport competitiveness, *"...of the strategic challenges that we see, tax is the main one."*

In terms of recent tourism trends and future potential, North America offers considerable untapped potential. Various figures exist as to how many US citizens self-identify as Scots-Irish (Ulster Scots lineage) with the US population census suggesting that upwards of 6m (at least 2% of the US population) self-identify as Scots-Irish, with the greatest clustering in Southern United States, Western United States and Appalachia.<sup>16</sup>

Approximately 2.5m Canadians claim Ulster heritage and Tourism Ireland is targeting potential visitors through an extensive promotional programme, emphasising the convenience and value of a holiday in Northern Ireland for Canadian visitors.<sup>17</sup> In 2005 the Northern Ireland Tourist Board estimated that about 100,000 U.S. and Canadian tourists came to Northern Ireland and that increasing that number was a priority as North American visitors *"...tend to stay longer and spend more... than Europeans"*.<sup>18</sup>

<sup>15</sup> Committee for Regional Development. February 2010. *Key issues and future challenges: networks and gateways*. Northern Ireland Assembly, Belfast

<sup>16</sup> US Census Bureau. 2008.

<sup>17</sup> Tourism Ireland March 2011, *Showcasing Northern Ireland in Toronto*. Tourism Ireland

<sup>18</sup> NITB Press Release May 2005, Northern Ireland Tourist Board, Belfast

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## ***The importance of tourism for Northern Ireland***

We also note that Tourism Ireland continues to focus on Canadian travel writers and hosted a visit to encourage greater Canadian visitor numbers, despite there being no direct route between Northern Ireland and Canada (although some seven direct flights per week enter Dublin).

Effectively, therefore, air routes are an essential element of existing tourism potential and future growth and we are firmly of the opinion that, in the current economic climate, any increase in cost relating to air travel will have a serious and detrimental impact on tourism potential and the region's economic well-being.

Indeed, there may well be a compelling argument to restore the Air Route Development Fund, in parallel with a derogation or devolution of the fiscal flexibility to abolish sub-regional APD, as a further incentive to carriers to increase the number of routes available to the region.

## So what can be done?

We have already highlighted Westminster's willingness to wholly exempt from APD ten airports in the Scottish Highlands and Islands and to Government's additional proposal to consider the issue of devolving tax varying powers on APD for Scotland as part of its wider review of aviation taxation. Based upon the decision to lift APD from long-haul flights and legislate accordingly, it might be seen as the London government has now signalled its willingness to begin a process to devolve APD to Northern Ireland. However, the language in the draft Finance Bill states merely that "*...the reduced rate for direct long-haul flights from Northern Ireland, which has been in place since 1 November 2011, will be given statutory effect.*" This cannot, with certainty, be read as a commitment to devolve the power to set and vary APD to the Northern Ireland Assembly.

We also note the Scottish proposals to devolve the power to set and vary APD to the Scottish Government as part of a (further) amended Scotland Bill<sup>19</sup>.

The issue of the impact of APD on the competitiveness and growth prospects of the Northern Ireland economy needs to be placed in conjunction with the recent Treasury consultation process seeking to rebalance the Northern Ireland economy<sup>20</sup>. At the time of writing, this issue remains open insofar as the Government is minded to devolve the powers to reduce Corporation Tax to the Northern Ireland Executive.

We believe that any further proposals to devolve tax varying powers relating to Government's consideration of the issue of devolution for Scotland as part of its wider review of aviation

taxation, should equally apply to Northern Ireland and to Wales (should the Welsh Assembly so decide).

A derogation for Northern Ireland should therefore be one or other of:

- scrapping APD completely as is the case in the Scottish Highlands and Islands, based on the peripheral nature of the region and the discriminatory nature of a largely unavoidable tax on necessary travel; or
- devolving the powers to vary (or scrap entirely) APD to the Northern Ireland Executive.

We note proposals from other sources to make Band B routes the key beneficiary of any change in APD legislation. However, we believe that for Northern Ireland to have any significant benefit from a change in APD legislation, both short-haul and domestic routes must be included. An advantage from the Treasury's point of view is that it is unlikely that a reduction in APD at Northern Ireland airports would lead to traffic being displaced from English airports. (In contrast, if the APD rate in Scotland became zero, a transatlantic traveller from Northumbria or Tyneside might conceivably drive to Edinburgh airport rather than Newcastle.)

The reduction in passenger traffic in recent times can only be reversed if APD reductions are applied across all of the UK routes from Northern Ireland. Long-haul routes, whilst important to future growth and investment, currently account for too small a percentage of overall traffic to justify being the sole beneficiary. We therefore believe Band B reductions alone would have a limited impact on meaningful market stimulation.

<sup>19</sup> The power to devolve APD has already been encapsulated in consultation proposals emanating from the new Scotland Bill Committee consultation paper and we believe that the robust Scottish approach to seeking local powers to address local problems is refreshing and appropriate.

<sup>20</sup> HM Treasury March 2011, *Rebalancing the Northern Ireland Economy*, HM Treasury, London.

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## ***So what can be done?***

However, we are also aware that it is possible that EU state aid rules would imply that the devolved administration would also have to carry the revenue consequences of such a policy. While these issues would require clarification with the European Commission, it is likely that the arguments outlined above would be compelling.



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