

Submission to Northern Ireland Assembly Finance & Personnel Committee

Devolution of Northern Ireland Air Passenger Duty

Introduction

1. ABTA welcomes the opportunity to submit our views to the Northern Ireland Assembly Finance & Personnel Committee on behalf of our Members based in Northern Ireland and across the UK.
2. ABTA – The Travel Association was founded in 1950 - and is the leading travel trade association in the UK, with over 1,200 members and over 5,000 retail outlets and offices. In Northern Ireland, ABTA has 39 members and 133 retail outlets and offices. Our members range from small, specialist tour operators and independent travel agencies through to publicly listed companies and household names, from call centres to internet booking services to high street shops.
3. ABTA Members provide 90% of the package holidays sold in the UK as well as selling millions of independent travel arrangements. The provision of quality, efficient and competitively priced passenger air travel is vital to the business interests of Members.
4. ABTA is one of the leading organisations in the Fair Tax on Flying campaign. This industry initiative presented a common set of principles and challenges to Government on the reform of APD and called for the level of APD to be frozen; the system of banding reformed; premium economy not to be classed the same as travel in first class; a call for income from the EU Emissions Trading Scheme (ETS) to be offset against total APD revenues; and an investigation of the impact of APD on overseas destinations as well as the UK. We were very disappointed that these issues were not taken up following HM Treasury's March 2011 consultation.
5. The challenges of the volcanic ash cloud in April 2010 and the winter snowfalls of 2010/11 have shown just how dependent, as islands on the fringe of the European continent, that the UK is on aviation. Moreover, it also made clear how critical efficient and affordable air travel is for citizens in their regular activities.
6. ABTA believes that the high levels of aviation tax are putting UK businesses at a competitive disadvantage compared to our European neighbours and are damaging the

position of the UK as a hub for global air travel. This impact is being felt especially in Northern Ireland which is unique in that it is the only part of the UK to share a land border with another state – the Republic of Ireland. This is particularly problematic for our Members and their customers as aviation taxation in the Republic is considerably lower.

Economic Impact of Tourism and Aviation to the UK Economy

7. The Government has recognised that aviation plays an important role in the UK economy. HM Treasury's March 2011 consultation document¹ stated that the aviation sector employs over 250,000 workers and supports an estimated 200,000 additional jobs through the supply chain.

8. Tourism is one of the largest industries in the UK, generating revenue of £115bn per annum and directly employing over 1.5m people². In terms of inbound tourism, the UK is the sixth most popular destination in the world with overseas visitors spending £16bn per annum in the country. The value and potential of the UK tourism industry to help rebuild and rebalance the UK economy has been repeatedly recognised by the current Government.

9. In February 2010, the consultation for the draft Tourism Strategy for Northern Ireland to 2020 highlighted just how important tourism is to the economy of Northern Ireland. It is understood to support over 40,000 jobs in Northern Ireland, representing 5.6% of the total workforce, bringing new facilities to towns and cities, and creating opportunities in rural areas. These people are employed in every constituency and at every skill level. Tourism is a driver of economic growth, contributing £1.49bn to Northern Ireland GDP.

10. ABTA supports the efforts of the Government to steer a private sector recovery; however, the experience of hiking APD and refusal to offset ETS against APD does not support this laudable goal. Indeed, increasing APD makes a private sector-led recovery increasingly difficult. As Northern Ireland borders a low tax environment it is harder to encourage a private sector-led recovery with aviation taxation posing such a high barrier to entry and disincentive to operating in Northern Ireland.

Competition from Europe

11. We believe that the ever increasing tax burden on people flying puts the UK at a competitive disadvantage when compared to our European neighbours and will incentivise the strengthening of alternative hubs to the UK both within and outside Europe, causing the number of destinations served by UK airports to fall further. For example, in the last 10 years Heathrow's position has fallen from 1st to 5th in Europe in terms of the number of destinations served. A reduction in the numbers of routes will impact upon the UK's global connectivity, hampering job creation prospects, inward

¹ HM Treasury – Reform of Air Passenger Duty (March 2011)

² 'The Economic Contribution of the Visitor Economy – UK and the nations', Deloitte, 2010

(and foreign direct) investment and economic growth within the UK. Ensuring there are working and affordable routes from all parts of the UK into the Heathrow hub is also an essential part of this mix. High rates of APD makes connectivity into Heathrow much harder and puts the economic links that this connectivity brings the nations and regions at risk.

12. The UK aviation sector is competing in an international market place where the burden of taxation has a very real impact on economic growth. The correlation between the two has been widely recognised in Europe. In the Netherlands, their version of APD was abolished within a year of its implementation because of the competitive disadvantage it brought to the Dutch economy. Belgian plans for a ticket tax were not implemented for similar reasons. A Danish tax was quietly withdrawn due to adverse effects on the economy and the tourism sector in particular. Germany’s aviation tax is charged at a significantly lower level than the UK’s and the German government agreed to offset ETS revenues against its tax.

13. The Irish government’s air travel tax was originally levied on air passengers at a rate of €10 for journeys of over 300km from Dublin with shorter flights levied at €2 per passenger. Following intervention from the European Commission that the distinction of imposing a higher tax on cross border flights was against EU law³, the Irish government modified that tax so that effective March 2011, it was levied at a single rate of €3 per passenger regardless of the destination of the flight.

14. The Irish government announced in 2011 its intention to eliminate its air travel tax to further bolster its air service network in order to assist further inward investment and tourism growth.

Table 1: Comparative aviation tax rates for a family of four travelling from the UK

	To Europe	To the USA*#	To Australia*
From the UK	£52	£260	£368
From Germany	£30	£90	£164
From Austria	£30	£90	£127
From Ireland	£11	£11	£11
From France	£4	£14.5	£14.5
From other European Countries	0	0	0

*further increase scheduled for 1 April 2013

#other than direct long-haul flights from Belfast which are charged at the European rate equating to £52

15. Further, the Irish government reduced VAT from 13.5% to 9% for hotel accommodation and restaurants effective 1 July 2011, increasing further the differential between visitors to Northern Ireland and visitors to the Republic.

³ Regulation 1008/2008 of the European Parliament and of the Council on common rules for the operation of air services in the Community

Northern Ireland

16. In ABTA's response to the 2011 HM Treasury consultation, we suggested that consideration should be given to treating Northern Ireland as a special case and recommended that APD be removed in its entirety in order that the economy of Northern Ireland is not severely disadvantaged on air taxation in contrast to the Republic of Ireland.

17. Passengers wishing to travel from Northern Ireland to the rest of the UK, and particularly to the south of England, are effectively obliged to fly. Northern Ireland is the only part of the United Kingdom that shares a land border with another EU Member State and the journey time from Belfast to Dublin Airport is approximately two hours. This juxtaposition of tax regimes is absurd and hugely uncompetitive for any operations from Northern Ireland.

18. We were encouraged by the September 2011 decision to reduce the APD rate for passengers travelling on direct long-haul routes departing from airports in Northern Ireland to the Band A rate effective 1 November 2011 and subsequently to devolve APD rates for direct long-haul routes to the Northern Ireland Assembly.

19. We encourage the Northern Ireland Assembly to look at ways of using the devolution of APD to provide an economic catalyst for businesses and holidaymakers in Northern Ireland. ABTA would be happy to assist the Northern Ireland Assembly with its deliberations into devolution of APD and assist in informing the decisions made on APD. We believe the devolution of APD to Northern Ireland provides an opportunity to demonstrate that high levels of APD place businesses at a competitive disadvantage and the devolution and, we hope, subsequent reduction in APD rates, will demonstrate how a lower tax regime can encourage tourism and act as a driver of growth across the economy.

20. Thank you for taking our comments into consideration.

Further Information:

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