

Legislative Consent Motion on UK Finance Bill: Proposed Amendment to GB Finance Act 1994
– Devolution of Northern Ireland Air Passenger Duty (APD) for Direct Long Haul Flights –
Response to the Committee of Finance and Personnel from the Northern Ireland Assembly
Committee for Enterprise, Trade & Investment

Committee Membership

Mr Alban Maginness (Chairperson)
Mr Daithí McKay (Deputy Chairperson)
Mr Steven Agnew
Mr Gordon Dunne
Mr Phil Flanagan
Mr Paul Frew
Ms Jennifer McCann
Mr Patsy McGlone
Mr Stephen Moutray
Mrs Sandra Overend
Mr Paul Givan

Overview

1. The Committee for Enterprise, Trade and Investment (ETI) welcomes the opportunity to respond to the Committee for Finance and Personnel consultation on Air Passenger Duty (APD).
2. The UK currently levies the highest rate of aviation duty in Europe. This has had a more negative impact on Northern Ireland than on other UK regions due to the land border with the Republic of Ireland. The Irish Government has reduced its APD rate to zero subject to airlines increasing their passenger numbers. In addition, in May 2011 the three main airports in the RoI (Dublin, Cork and Shannon) announced plans to reduce air passenger charges by €11.50. Furthermore, in Northern Ireland from 2008/09, the level of Air Passenger Duty collected has continued to rise despite the decline in air passenger numbers.
3. Despite recent declines, air passenger numbers at Northern Ireland airports have increased by nearly 55% between 2000 and 2010, increasing from 4.5m in 2000 to nearly 7.1m in 2010. Over the same time period, passenger numbers on flights within Band A have increased by 56% whilst passenger numbers on flights within Band B have increased by 10%.

4. Northern Ireland is heavily reliant upon air links to access GB and other markets and, given that Northern Ireland has no direct rail links with the rest of GB, a limited ferry infrastructure (there are only currently 5 sea routes/ferry crossings available), both business and tourism travellers alike depend heavily on air travel.
5. Following discussions in Washington DC between the Chair and Mr Conor McAuliffe, Managing Director, European Affairs, United Airlines, in October 2010, the previous Committee considered correspondence from Mr McAuliffe raising concerns in relation to the impact of APD on the profitability of the only service from Belfast to Newark (Annex 1). The Committee raised the matter with the Minister in December 2010 (Annex 2). Committee and was assured in the response that the Minister concurred with the Committee that APD could have a detrimental effect on both business and tourism.
6. The Committee considers the retention of the route between Belfast and Newark essential to supporting and retaining investment in Northern Ireland by US companies and for the attraction of future Foreign Direct Investment (FDI) from the United States. It is also essential that measures are taken to attract further long-haul and short-haul routes to Belfast's airports for the benefit of the economy and tourism.
7. This Committee has had the opportunity to carefully consider the DFP consultation papers, the written responses and other papers noted by the Committee for Finance and Personnel during this consultation. The Committee has concluded that there is overwhelming evidence submitted in the response and papers, which reinforces the position of the Committee for Enterprise, Trade and Investment regarding the negative impact of high APD on the economy and tourism.
8. The Committee has taken oral evidence on the importance of air travel for growth in business in Northern Ireland. During oral evidence Almac Ltd, informed the Committee that they had expanded to the United States which resulted in company representatives travelling back and forward to the USA on a weekly basis. This highlights the need to retain a strong link, both for FDI companies maintaining a direct link to their home base and, for indigenous companies trying to grow export markets. This, and the visit by the First Minister, deputy First Minister and Minister for Enterprise, Trade & Investment to Asia recently, underpins the need to be able to attract flights from those growing markets in Asia if FDI is to be drawn from those regions.
9. The Committee is aware of concerns regarding the cost of devolution of short haul flights. It has been suggested that the cost would amount to £60m if APD were to be

abolished on short-haul flights. However, the Committee recognises that this figure is an estimate of the cost of abolishing APD on short-haul flights. The Committee supports the consideration, by the Executive, of the devolution of APD for short-haul flights with an APD rate set to achieve a balance between cost to the Executive and benefit to the economy and tourism.

Committee for Enterprise, Trade and Investment Position on the Devolution of APD

10. The Committee for Enterprise, Trade & Investment believes that high levels of APD have a negative impact on business and on tourism. Furthermore, high APD has the potential to place Northern Ireland at a competitive disadvantage compared to the Republic of Ireland.
11. The current link between Belfast and Newark must be retained as it is essential for the development of the economy and tourism.
12. The establishment of further links between Belfast and Band B, Band C and Band D destinations must be encouraged. The Committee supports the devolution of Air Passenger Duty for flights to destinations at Band B, Band C and Band D.
13. The Committee supports the consideration, by the Executive, of the devolution of Air Passenger Duty for Band A flights.
14. Consideration should be given to the retention of additional revenues where APD is devolved and not set to zero, and passenger numbers subsequently increase as a result.

DETI ANALYSIS COMPLETED IN MAY 2011 - AIR PASSENGER DUTY (APD) AND NORTHERN IRELAND

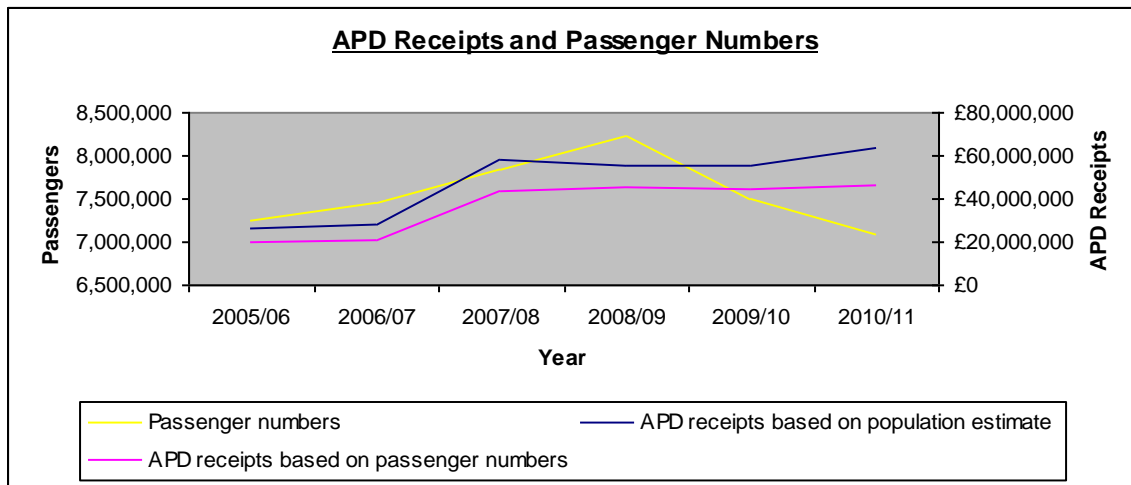
APD and NI Passenger Numbers

1. The following section highlights key trends in passenger numbers in recent years. It is not possible to draw definitive conclusions regarding the rate of APD and passenger numbers to and from NI. APD rates have increased in recent years while passenger numbers for 2010 are down 5.5% from 2009. However a number of external factors should be considered in attempting to correlate APD with passenger numbers, for example:
 - (i) the global economic recession and volcanic ash cloud will have had a detrimental effect on passenger numbers; and
 - (ii) airlines may be absorbing the cost of APD and not passing this on to passengers.

2. Passenger numbers at NI airports have increased by nearly 55% between 2000 and 2010, increasing from 4.5m in 2000 to nearly 7.1m in 2010¹. Over the same time period, passenger numbers on flights within Band A have increased by 56% whilst passenger numbers on flights within Band B have increased by 10%.

3. Chart 1 illustrates that until 2008/09 there was a positive correlation between the amount of APD being collected in Northern Ireland and the number of passengers on flights in and out of Northern Ireland airports. However, from 2008/09, while passenger numbers have decreased, the level of APD collected has continued to rise in spite of the decline in passenger numbers.

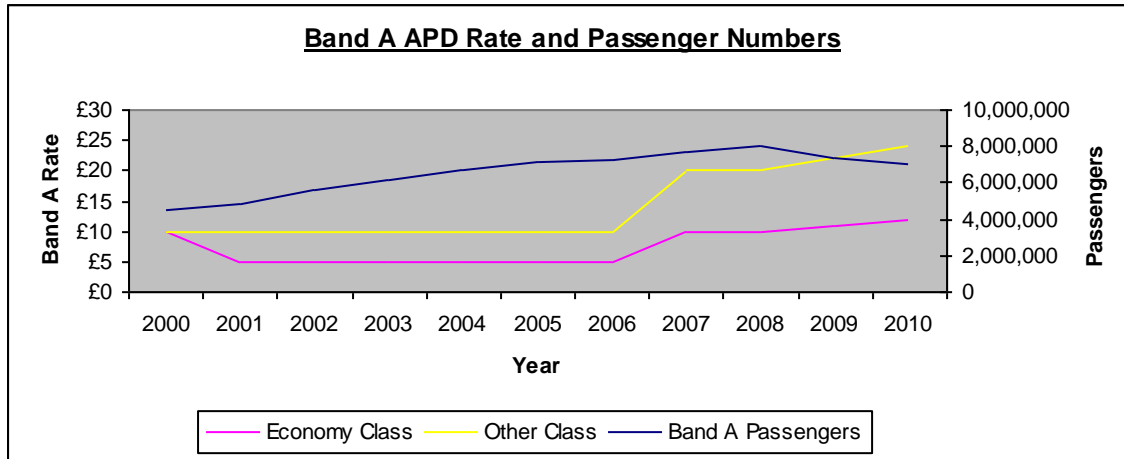
Chart 1: APD Receipts and Passenger Numbers



¹ NI Transport Statistics 2009/10

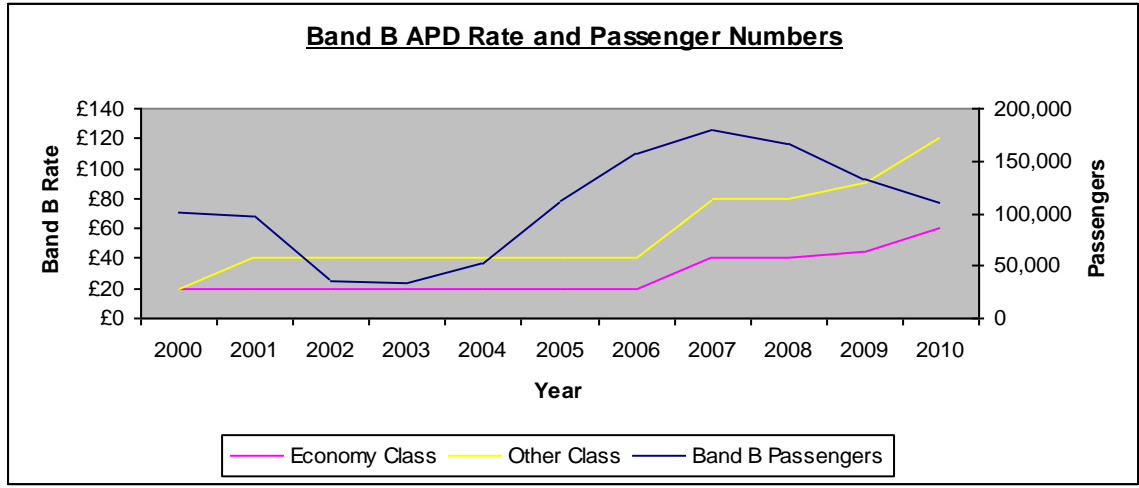
- Chart 2 shows that until about 2007/08, there was no correlation between APD rates in economy and other classes within Band A and passenger numbers in Band A. Passenger numbers rose steadily whilst APD remained static until it was increased in 2007 (passenger numbers continued to increase in 2007). Post 2007/08, NI experienced a slight decrease in the number of passengers in Band A with a corresponding increase in the APD rate applied to Band A.

Chart 2: Band A APD Rate and Passenger Numbers



- Chart 3 illustrates there is no significant correlation between the rate of APD in Band B and passenger numbers in Band B between 2000 and 2010. Since the introduction of the existing North America flight in 2005, passenger numbers increased significantly until 2008 whilst APD rates increased also. However, since 2008 the number of passengers travelling in Band B has decreased whilst the rate of APD in Band B for both economy and other classes has increased. In considering flights in Band A and Band B, it should be noted that airlines may be absorbing the cost of APD and not passing this on to passengers.

Chart 3: Band B Rate and Passenger Numbers



6. Between 2000 and 2009, the number of out of state visitors to NI has increased by nearly 30% with the associated revenue increasing by 34% over the same period². Visitors from GB accounted for 53% of total visits to Northern Ireland in 2009 with 25% from the ROI, 8% from North America and 11% from Europe.

7. Chart 4 shows that until 2008/09 the number of out of state visitors rose steadily if not spectacularly with APD rising over the period from 2000. After 2008/09 the level of out of state visitors declined whilst APD rates continued to increase.

Chart4: Out of State Visitors and APD Rates in Economy Class

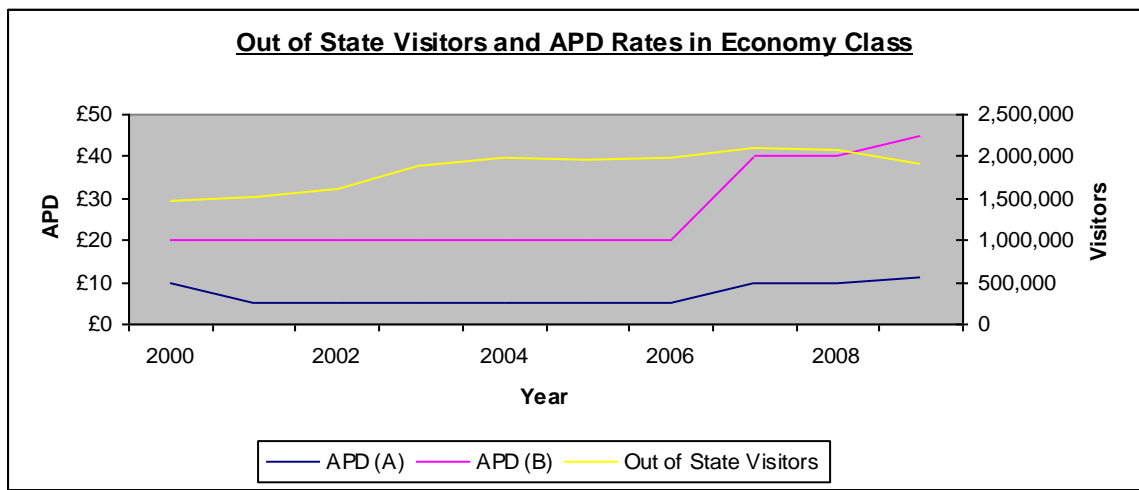
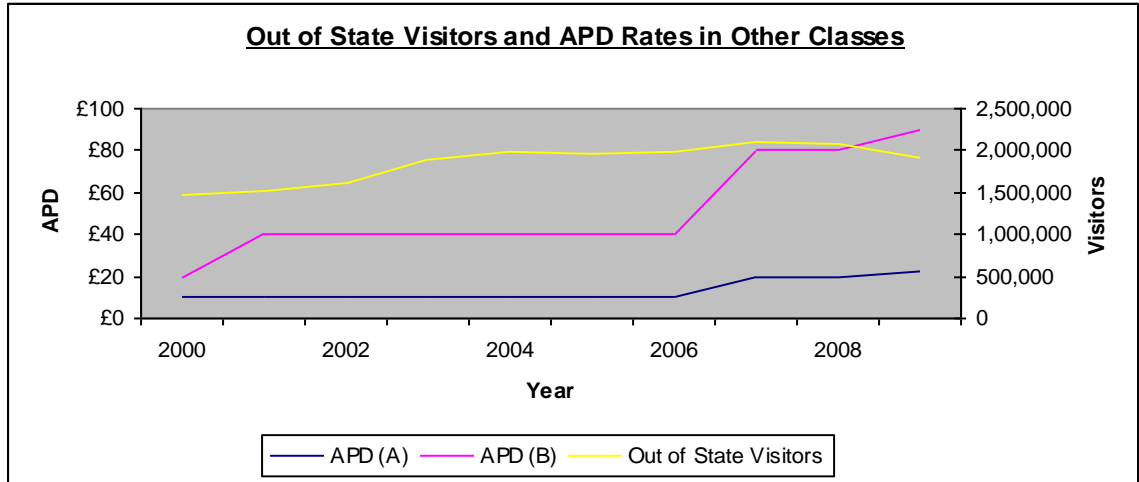


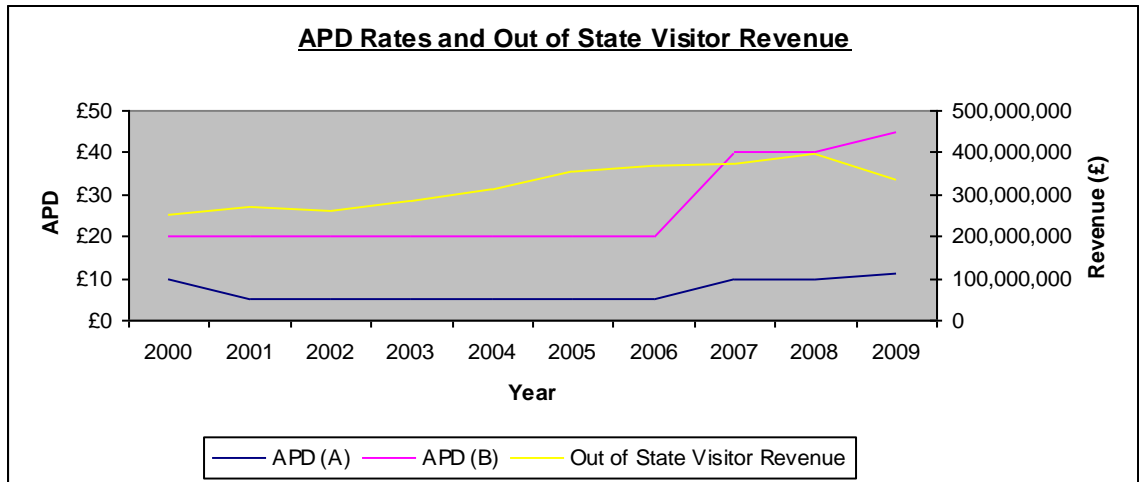
Chart 5: Out of State Visitors and APD Rates in Other Classes

² NITB, Tourism Facts 2009



8. Beyond 2008/09 the trend has been an increase in APD rates against a fall in the level of revenue generated from out of state visitors to Northern Ireland (Chart 6).

Chart 6: APD Rates and Out of State Visitor Revenue



APD and Foreign Direct Investment

9. There is no significant correlation between the numbers of flights into and out of NI and the level of FDI into NI over the period 2003 to 2009. Between 2003 and 2010, the level of annual Foreign Direct Investment (FDI) into NI has increased by over 42% from £380m in 2003 to £541m in 2010³. Over the same period, the number of additional jobs created in NI through this inward investment has increased from 1,687 in 2003 to 4,190 in 2010, an increase of 148m. Over this period, FDI into NI has totalled nearly £5bn and created 30,000 jobs

³ Invest NI, FDI Intelligence database

10. However, it should be noted that the USA has provided the majority of this investment with a share of 39% (£1.9bn) creating some 12,800 jobs (43%). Canada also contributed invested significantly over this period, with investments totalling some £945m (19% of total investments) creating 2,570 jobs.
11. The current Continental Airlines Belfast/New York service provides a vital and strategic access point not just for indigenous companies seeking to trade with North America, but it also provides a very important gateway for inward investors seeking to establish or expand business operations in NI.
12. Specifically many Invest NI FDI clients, including the New York Stock Exchange (NYSE), have expressly stated that their presence here was only possible on the basis that direct air access to the Eastern Seaboard capital markets was readily available.

Impact of APD on Band B

13. While there does not appear at present to be a correlation between APD and Band A, the situation is more complex in respect of Band B. As per Chart 3 above, since 2008 the number of passengers travelling in Band B has decreased whilst the rate of APD in Band B for both economy and other classes has increased.
14. The performance of the Continental Airlines Belfast/New York service helps to demonstrate the impact of APD on flights in Band B. The Airline has advised DETI that it made a loss of £2 million on the route in 2010. This corresponds with an estimated £2.15 million raised on the route by APD. The service is well used with an average load factor of 85%. However Continental have been absorbing the cost of APD rather than passing this on to passengers in order to remain competitive with flights to the US from Dublin. The recent announcements in the ROI that APDT and landing charges will be reduced will widen the competitive gap between NI and the ROI.
15. Continental Airlines are very clear that the current rate of APD in Band B has made the Belfast/New York service unprofitable and the Airline is monitoring the route's performance on a monthly basis.
16. It is estimated that the US visitors who travelled on the Belfast/New York flight in 2010 contributed some £6.6 million to tourism in NI