

**Committee for Finance and Personnel**

**Report on the  
Legislative Consent Motion:  
UK Finance Bill  
(Air Passenger Duty)**

Wednesday 16 May 2012

NIA 53/11-15

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## List of Abbreviations and Acronyms

APD	Air Passenger Duty
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
ETI	Enterprise, Trade and Investment
ETS	Emissions Trading Scheme
EU	European Union
FSB	Federation of Small Businesses
GB	Great Britain
GVA	Gross Value Added
HM	Her Majesty
HMRC	Her Majesty's Revenue and Customs
NI	Northern Ireland
PwC	PricewaterhouseCoopers
SME	Small and medium-sized enterprise
VFR	Visiting Friends and Relatives
UK	United Kingdom

## Introduction

### Background

1. The UK Finance Bill 2012 was introduced in the Westminster Parliament on 10 May 2012. This Bill includes the provision to devolve direct long-haul rates of Air Passenger Duty (APD) to Northern Ireland. The provisions deal with a devolution matter as they change the legislative competence of the Northern Ireland Assembly. As this involves the devolution of tax-setting powers, there will be a reduction in the block grant of an estimated maximum of £5 million per annum, in order to ensure compliance with EU state-aid rules; and the Executive will incur this full cost if it decides to set the rate for direct long-haul flights at zero.
2. The Minister of Finance and Personnel will table a Legislative Consent Motion which, in effect, if approved by the Assembly, gives consent to the provisions contained within the Finance Bill 2012 and allows the Westminster Parliament to proceed with the Bill. The Committee for Finance and Personnel is reporting to the Assembly on the provisions of the Bill which deal with a devolution matter as outlined under Standing Order 42A.

### Air Passenger Duty

3. APD is a revenue-raising tax levied on passengers flying from a UK airport. APD rates are calculated using different banding structures based on mileage and class of travel, as set out below<sup>1</sup>:

<b>APD Band</b> (distance from London)	<b>Reduced rate</b> (for travel in the lowest class available on the aircraft) [from 1 April 2012]	<b>Standard rate</b> (for travel in any other class of travel) [from 1 April 2012]
<b>Band A</b> (0 – 2000 miles) e.g. flights to UK and Europe	£12 [£13]	£24 [£26]
<b>Band B</b> (2001 – 4000 miles) e.g. flights to USA	£60 [£65]	£120 [£130]
<b>Band C</b> (4001 – 6000 miles) e.g. flights to Thailand	£75 [£81]	£150 [£162]
<b>Band D</b> (over 6000 miles) e.g. flights to Australia	£85 [£92]	£170 [£184]

4. Critics of APD oppose the duty as a form of “unfair and economically damaging taxation” and the UK is often cited as having the highest APD in the world. In this regard, the Committee notes that recent research, conducted by Oxford Economics for the World Travel & Tourism Council, argues that removing APD in the UK “would result in an

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<sup>1</sup> Northern Ireland Affairs Committee Second Report, “Air Passenger Duty: implications for Northern Ireland”, 5 July 2011.

<http://www.publications.parliament.uk/pa/cm201012/cmselect/cmniaf/1227/122702.htm>

additional 91,000 British jobs being created and £4.2 billion added to the economy in 12 months”.<sup>2</sup> The appropriateness and effectiveness of APD as an environmental instrument has also been criticised. However, the UK Coalition Government maintains that APD is primarily a revenue-raising tax with some environmental benefits. In the March *Budget 2011* the Chancellor launched a consultation on improving the efficiency and fairness of APD. Devolution of APD to Scotland, Northern Ireland and Wales was raised in this consultation.<sup>3</sup>

5. In June 2011 the Northern Ireland Affairs Committee undertook an inquiry into the effects of APD on Northern Ireland. It recognised the significance of APD for Northern Ireland, as it is geographically isolated from GB and is therefore heavily dependent on air (and ferry) transport links. The Committee also noted that Northern Ireland shares a land border with the Republic of Ireland, where Air Travel Tax is set at a comparatively insignificant rate of €3 for all flights. Furthermore, Air Travel Tax may be abolished completely by the Fine Gael/Labour Government, subject to further talks with airlines, making it hard for Northern Ireland to compete for cheaper fares.<sup>4</sup>
6. Evidence given to the Northern Ireland Affairs Committee from Continental Airlines expressed the difficulties which the airline had with APD, specifically on the Belfast to Newark (New York) route. As a result, Continental was forced to absorb APD in Belfast in order to keep customers from switching to Dublin and keep the route open. Bob Schumacher, Managing Director, Sales (UK and Ireland), commented that this was harmful to the long-term viability of a route that carries around 100,000 passengers annually. The Committee heard that the route was then being run at a loss, with Continental Airlines effectively subsuming the cost of APD – around £3.2 million.<sup>5</sup>
7. In the *Second Report of Session 2010-12 (Air Passenger Duty: implications for Northern Ireland)*, the Northern Ireland Affairs Committee stated that it believed the option of devolving the power to set the rate of APD to the Northern Ireland Assembly would be a “long, drawn-out legislative process, and a short-term solution is required.”<sup>6</sup> The Committee instead recommended a short-term solution and local measures to mitigate the effects of the tax in Northern Ireland. In the long-term, it recommended that a zero-rate of ADP apply to all flights departing Northern Ireland, and on direct flights to Northern Ireland from GB. Given the potential state-aid issues that could arise from this, the Committee concluded that “in the longer term, the devolution of the power to set, or vary, APD might be considered.”<sup>7</sup>

World Travel and Tourism Council: The case for abolishing APD in the UK

<sup>2</sup> [http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/world\\_travel\\_and\\_tourism\\_council-.pdf](http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/world_travel_and_tourism_council-.pdf)  
[http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/world\\_travel\\_01air\\_passenger.pdf](http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/world_travel_01air_passenger.pdf)

<sup>3</sup> HM Treasury, *Reform of Air Passenger Duty: a consultation*, 23 March 2011.

[http://www.hm-treasury.gov.uk/2011budget\\_airpassenger.htm](http://www.hm-treasury.gov.uk/2011budget_airpassenger.htm)

<sup>4</sup> Assembly Research Paper, 27 April 2012, p. 30.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

<sup>5</sup> Assembly Research Paper, 27 April 2012, p. 20.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

<sup>6</sup> Northern Ireland Affairs Committee, Second Report, “Air Passenger Duty: implications for Northern Ireland”, 5 July 2011.

<http://www.publications.parliament.uk/pa/cm201012/cmselect/cmniaf/1227/122702.htm>

<sup>7</sup> Northern Ireland Affairs Committee, Second Report, “Air Passenger Duty: implications for Northern Ireland”, 5 July 2011.

8. On 27 September 2011 the UK Coalition Government announced that, effective from 1 November 2011, APD for passengers travelling on direct long haul routes departing from airports in Northern Ireland would be cut to the prevailing, lower short-haul rates of duty. This action was taken primarily to maintain Northern Ireland's vital air link to North America, which faced the threat of withdrawal.
9. At the same time that it announced the reduction in APD rates for passengers on direct long-haul flights from Northern Ireland, the UK Coalition Government announced that, in order to provide a more lasting solution, aspects of APD would be devolved to Northern Ireland. This followed a public consultation on APD, which included a question on whether APD should be devolved to Northern Ireland. In its response to this consultation, which is available at **Appendix 2**, the Department of Finance and Personnel (DFP) argued that APD should be "discontinued or significantly reduced" in Northern Ireland, noting the exemption on APD granted to the Scottish Highlands and Islands.<sup>8</sup> DFP also expressed the wish to consider and explore the option of devolution of APD powers to Northern Ireland. The Executive's subsequent Programme for Government and Economic Strategy included a key commitment to "develop direct air links with international long haul markets by eliminating Air Passenger Duty on direct long haul flights departing from NI."<sup>9</sup>

### **Provisions of the Finance Bill 2012**

10. The relevant provisions are contained in clause 189 of, and schedule 23 to, the Finance Bill 2012. While the clause and schedule are included in the attached **Annex**, an outline of the key provisions is provided below.
11. Part 1 (paragraphs 1-3) of schedule 23 gives statutory effect to the rate of reduction which was applied to direct long-haul flights departing from Northern Ireland between 1 November 2011 and 31 March 2012. These are the same flights for which the responsibility for setting the rate of APD will be devolved to the Northern Ireland Assembly.
12. Part 2 (paragraphs 4-6) of schedule 23 provides for increases in APD rates by amending section 30 of the Finance Act 1994.
13. Paragraph 4(6) inserts new subsections (4B) to 4(D) into section 30 of the Finance Act 1994, extending the holding of long-haul rates from Northern Ireland at the new "Band A" level from 1 April 2012, until the power to set rates is devolved to the Assembly. Therefore, all direct long-haul flights departing from Northern Ireland, no matter their destination, will be charged the new APD rate of £13 in economy class and £26 on other classes.

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<http://www.publications.parliament.uk/pa/cm201012/cmselect/cmniaf/1227/122702.htm>

<sup>8</sup> DFP Response to HM Treasury Consultation on Reform of Air Passenger Duty, 16 June 2011.  
<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/dfp-response-to-apd-consultation.pdf>

<sup>9</sup> Northern Ireland Executive Economic Strategy, March 2012, p. 11.

<http://www.northernireland.gov.uk/ni-economic-strategy-revised-130312.pdf>

14. Part 3 (paragraphs 7-15) of schedule 23 devolves direct long-haul rates of APD to the Assembly. This section will apply to direct long-haul flights originating in Northern Ireland which are not followed by a connecting flight within the United Kingdom or “Band A” territories. The Assembly is permitted to lower these rates, including setting a zero rate (£0). Changes to rates must be made through a Bill in the Assembly.
15. Part 3 also makes provision for the setting up and maintenance of a separate register of aircraft operators with routes from Northern Ireland. Her Majesty’s Revenue & Customs (HMRC) may keep a separate register of aircraft operators flying from Northern Ireland and requires such operators to notify HMRC of their liability to pay the devolved rates.
16. In addition, to allow for more effective management of the tax and the APD rate-setting process, Part 3 introduces provisions for HMRC to disclose information relating to devolved rates of duty to the Secretary of State, HM Treasury or the Department of Finance and Personnel. Part 3 also makes consequential legislative amendments concerning payments into the Northern Ireland Consolidated Fund.
17. Part 4 of schedule 23 extends the scope of APD to private jets. It provides that the new rates to be applied for carriage on aircraft considered to provide exceptional standards of luxury travel are to be twice those applied to non-standard class travel. These changes would apply from 1 April 2013.

### **Committee Approach**

18. The Minister of Finance and Personnel wrote on 5 March 2012 to notify the Committee that he was content, in principle, to seek the agreement of the Executive to table a Legislative Consent Motion on the devolution of direct long-haul rates of APD to the Assembly and to request the view of the Committee on this issue. The Minister’s letter and accompanying memorandum are included at **Appendix 2**. With a view to meeting the reporting timeline of 15 working days from the date of referral, as set out in Standing Order 42A, the Committee agreed to take evidence in advance of the Legislative Consent Memorandum being laid before the Assembly
19. On 14 March 2012, the Committee took evidence from Departmental officials on the proposed Legislative Consent Motion on the devolution of APD – see **Appendix 5**. The Committee noted that, in addition to DFP, these provisions may be of interest to the Department of Enterprise, Trade and Investment (DETI); therefore a response was sought from the Committee for Enterprise, Trade and Investment and this is included at **Appendix 4**.
20. Following a call for evidence on the proposed Legislative Consent Motion, the Committee received written submissions from a range of stakeholders and, on 18 and 25 April, oral hearings were held with representative panels of witnesses, including from Belfast International Airport, George Best Belfast City Airport, ABTA: The Travel Association, the Northern Ireland Hotels Federation, Belfast Visitor & Convention Bureau, the Consumer Council for Northern Ireland, the Northern Ireland Chamber of Commerce and the Federation of Small Businesses (FSB). Arising from the evidence gathering process, the Committee also noted recent published studies on APD and, on 2 May, members received an Assembly Research briefing together with final oral evidence from DFP officials.

## Consideration of the Evidence

21. While the Committee invited evidence specifically on the detail of the relevant provisions in the Finance Bill 2012, it also received a substantial body of evidence on wider policy issues in respect of APD, including its impact on the Northern Ireland economy, and on provisions which are absent from the Finance Bill.
22. There was general support for the proposal to devolve direct long-haul rates of duty on flights from Northern Ireland, including optimism that this will open up long-haul route development opportunities for the region.<sup>10</sup> However, there was also a strong theme in favour of fuller devolution of powers to that contained in Part 3 (paragraphs 7-15) of schedule 23 to the Finance Bill; in particular, to include APD rates on domestic and short-haul (“Band A”) flights, which represent 98.5% of all flights from Northern Ireland. In addition, during their questioning of DFP officials, members raised queries on some of the specific provisions in the Bill. While an outline of the key themes from the evidence is provided below, the Committee would also direct the reader to the full sources, as listed in the appendices.

### Competition with the Republic of Ireland

23. In its report on APD, the Northern Ireland Affairs Committee noted that Northern Ireland is a unique position, being separated by sea from GB and sharing a land border with another EU Member State that has a materially lower rate of APD, which it proposes to abolish entirely. The Report argued that because of these factors, there is a very strong case for some form of mitigation of APD for Northern Ireland.
24. The existence of a cheaper APD equivalent in the Republic of Ireland (Air Travel Tax, which is currently set at €3 and may be abolished) has an economic impact on air services in Northern Ireland, due mainly to the shared land border and relatively short distances for land travel between Dublin Airport and Northern Ireland.<sup>11</sup>
25. In its written submission to the Committee for Finance and Personnel, Belfast International Airport said (referring to the Chancellor’s decision to hold the Band B rate of APD to the Band A equivalent in Northern Ireland):

*“Whilst the [recent APD] reduction safeguards the Belfast - New York service with United Airlines, it still leaves airline operators at a distinct disadvantage to their Dublin counterparts where the APD equivalent is 3 euro per passenger.”*

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<sup>10</sup> Written submission from Belfast International Airport; <http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/belfast-international-airport.pdf> and the Northern Ireland Chamber of Commerce.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/northern-ireland-chamber-of-commerce.pdf>

<sup>11</sup> Assembly Research Paper, 27 April 2012, p. 22.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)



26. Belfast International Airport also noted that APD has been held up as a barrier to airlines that might otherwise have shown interest in operating services in Northern Ireland, limiting market opportunity and creating competitive disadvantage for operators.<sup>12</sup>
27. The Committee concurs that the Northern Ireland air and tourist industry is therefore at an effective competitive disadvantage due to the existence of higher rates of APD locally. The resultant decrease in demand at Northern Ireland airports leads to a lower number of air travel routes, reducing consumer choice and convenience, regardless of the other economic consequences.

### **EU Emissions Trading Scheme**

28. Several stakeholders referred to the EU Emissions Trading (ETS) which was introduced in the UK in January 2012. ETS is a cap-and-trade mechanism which means that airlines will face extra costs depending on the efficiency of their aircraft, miles flown and load carried.<sup>13</sup> ABTA argued that with the introduction of ETS – a more practical method to tax aviation pollution costs – APD should be scrapped, or at least offset against ETS.<sup>14</sup> This view was also shared by Belfast International Airport, which argued that APD should be “wrapped up into the ETS”.<sup>15</sup>
29. Similarly, the FSB claimed that:

*“...with the inclusion of the aviation sector in the European emissions trading system in 2011, a strong case can be made for a significant reduction in APD, the rationale for which, in 2008, was that it would play a key role in reducing CO2 emissions.”<sup>16</sup>*

30. In its evidence, the Northern Ireland Chamber of Commerce argued that:

*“As we stand, what is effectively going to happen in the UK is that the emissions trading scheme will come in and hit air travel. APD, which was originally seen as an environmental tax but is now fully recognised as a finance-raising tax, will sit alongside that. Therefore, we will be doubly punished.”<sup>17</sup>*

### **Business and tourism potential of lower APD**

<sup>12</sup> Written submission from Belfast International Airport.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/belfast-international-airport.pdf>

<sup>13</sup> Assembly Research Paper, 27 April 2012, p. 14.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

<sup>14</sup> Assembly Research Paper, 27 April 2012, p. 14.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

<sup>15</sup> Official Report, 18 April 2012.

<http://www.niassembly.gov.uk/assembly-business/official-report/committee-minutes-of-evidence/session-2011-2012/april-2012/air-passenger-duty--belfast-international-airportgeorge-best-belfast-city-airport/>

<sup>16</sup> Official Report, 25 April 2012.

<http://www.niassembly.gov.uk/assembly-business/official-report/committee-minutes-of-evidence/session-2011-2012/april-2012/air-passenger-duty-northern-ireland-chamber-of-commerce--federation-of-small-businesses/>

<sup>17</sup> <http://www.niassembly.gov.uk/assembly-business/official-report/committee-minutes-of-evidence/session-2011-2012/april-2012/air-passenger-duty-northern-ireland-chamber-of-commerce--federation-of-small-businesses/>

31. Many of the stakeholders providing evidence emphasised the importance of air travel to business and tourism in Northern Ireland. In 2009 the “Air Transport” sector contributed Gross Value Added (GVA) of around £127m to the Northern Ireland economy along with directly supporting 704 jobs and an additional 914 jobs down the production line. This is a sizeable contribution and it is considered that the new business attracted through a locally decided lowering of APD rates would very likely have a positive impact on all of these figures.<sup>18</sup>

32. In a recent paper on devolving APD to Northern Ireland, PricewaterhouseCoopers (PwC) stated that:

*“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”.*<sup>19</sup>

PwC went on to 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”*<sup>20</sup>

33. In its evidence, Belfast International Airport commented that the anticipated cost of devolving APD on direct long-haul flights – an estimated £5 million per annum maximum – is lower than the direct and indirect revenue generated in Northern Ireland by the North American route on which the Executive originally campaigned for a reduction in APD.<sup>21</sup> The benefit to the NI economy of the New York flight has been worth in excess of £100 million over 7 years.<sup>22</sup>

34. In its written submission, the Consumer Council argued that, given Northern Ireland consumers’ high dependence on air travel:

*“APD, in its current structure, is unfair as it financially disadvantages NI consumers in comparison to their GB counterparts”.*<sup>23</sup>

35. The Consumer Council also pointed out that England is to benefit from a £32.2 billion investment in a high-speed rail (HS2 Y) network, reducing dependence on domestic air

<sup>18</sup> Assembly Research Paper, 27 April 2012 p. 23.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

<sup>19</sup> PwC (NI), *Helping economic take off: Devolving Air Passenger Duty*, 16 December 2011, p.3.

[http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/pwc\\_report\\_01.pdf](http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/pwc_report_01.pdf)

<sup>20</sup> PwC (NI), *Helping economic take off: Devolving Air Passenger Duty*, 16 December 2011, p.7.

[http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/pwc\\_report\\_01.pdf](http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/pwc_report_01.pdf)

Official Report, 18 April 2012.

<sup>22</sup> Assembly Research Paper, 27 April 2012.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

<sup>23</sup> Written submission from the Consumer Council for Northern Ireland.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/consumer-council-ni.pdf>

transport, with wider economic benefits. Northern Ireland will not have access to this network, and will receive a limited benefit from this substantial investment of government money. The Consumer Council argued that exemption from all APD rates on flights to and from Northern Ireland would ensure equality of access for consumers here.

36. According to the Deloitte report *The Economic Contribution of the Visitor Economy: UK and the Nations* (provided by ABTA) 30,000 jobs in Northern Ireland depend on the tourism industry, relative to around 3% of all employment. Approximately 20% of all business units in Northern Ireland are part of the “visitor economy”. Both of these rates are lower relative to England, Scotland and Wales, demonstrating that there is perhaps spare capacity and opportunity for growing the visitor economy in Northern Ireland.<sup>24</sup>
37. From the written evidence provided by Flybe, the Committee notes that economic modelling, undertaken by the consultants Oxera (commissioned by Flybe), found that all UK regions would benefit from an absence of APD; most significantly, Northern Ireland would benefit the most of all regions, with a 16.3% increase in the GVA contribution of the aviation sector to the local economy.<sup>25</sup>
38. ABTA’s written submission to the Committee noted that, in February 2010, the consultation on the draft Tourism Strategy for Northern Ireland to 2020 highlighted that tourism represents 5.6% of the total workforce in Northern Ireland, bringing new facilities to towns and cities, and creating opportunities in rural areas. According to ABTA, “tourism is a driver of economic growth, contributing £1.49bn to Northern Ireland GDP.”<sup>26</sup> The FSB commented that the current structure of APD is “damaging to the UK’s tourism industry.”<sup>27</sup>
39. Several stakeholders highlighted the importance of direct access for tourism. The Northern Ireland Hotels Federation argued that in order to attract more tourists to Northern Ireland, the “access model needs to change.”<sup>28</sup> During oral evidence, the representative from the Belfast Visitor and Convention Bureau commented that:

*“Germany is the biggest source market of city breaks in Europe, yet we have no direct access there. Canada is our biggest VFR market after America, yet we do not have direct access there. Therefore, I think that the APD long-haul solution that we seem to have could create an opportunity.”*<sup>29</sup>

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<sup>24</sup> Assembly Research Paper, 27 April 2012, p. 23.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

<sup>25</sup> Written submission from Flybe.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/flybe.pdf>

<sup>26</sup> Written submission from the Consumer Council for Northern Ireland.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/consumer-council-ni.pdf>

<sup>27</sup> Written submission from the FSB.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/federation-of-small-business.pdf>

<sup>28</sup> Official Report, 18 April 2012.

<http://www.niassembly.gov.uk/assembly-business/official-report/committee-minutes-of-evidence/session-2011-2012/april-2012/air-passenger-duty--abta-northern-ireland-hotels-federation-and-belfast-visitor-and-convention-bureau-//>

<sup>29</sup> Official Report, 25 April 2012.

<http://www.niassembly.gov.uk/assembly-business/official-report/committee-minutes-of-evidence/session-2011-2012/april-2012/air-passenger-duty-consumer-council/>

40. In its evidence, the FSB pointed out that tourists rarely travel more than 100km beyond their point of arrival. As there are few opportunities for foreign travellers to fly directly to Northern Ireland, most visitors to Ireland will fly to Dublin Airport, and may decide against travelling north of the border into Northern Ireland. This shows a clear disadvantage to the potential of the tourism sector in Northern Ireland.<sup>30</sup>

41. In terms of the wider economy in Northern Ireland, the FSB also noted the negative effect that Band A rates of APD can have on local small and medium sized businesses (SMEs) who are contracting in GB. As an example, the case was cited of one local construction firm which won several major contracts in England and Scotland. This business flies 20 staff over and back each week, costing £13 per person in APD for each flight each way. This means that the costs in APD alone for the business are £520 per week – or £25,000 per year – higher than for competitors in GB or the Republic of Ireland.<sup>31</sup>

42. As regards the devolution of direct long-haul flights, the Northern Ireland Chamber of Commerce claimed that without the commitment from the Executive to reduce Band B APD rates to zero,

*“Northern Ireland will fail to maximise its full future tourism potential from vital worldwide markets, and fail to generate the number of direct inbound tourist numbers required to elevate the sector to another level.”<sup>32</sup>*

43. The Northern Ireland Chamber of Commerce also noted that the devolution of APD puts Northern Ireland in a better position to win new airline business, including potential services to Canada, the United States and Middle Eastern hub airports providing connectivity to China, India and Australia.<sup>33</sup>

44. Ballymena Borough Council strongly welcomed the proposals to devolve APD rates, commenting on “the key role of tourism as an export and the need to develop new international markets for our businesses.” The Council considers that “the impact of Air Passenger Duty on the competitiveness and growth prospects of the Northern Ireland Economy is of vital importance.”<sup>34</sup>

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<sup>30</sup> Official Report, 25 April 2012.

<http://www.niassembly.gov.uk/assembly-business/official-report/committee-minutes-of-evidence/session-2011-2012/april-2012/air-passenger-duty-consumer-council/>

<sup>31</sup> Official Report, 25 April 2012.

<http://www.niassembly.gov.uk/assembly-business/official-report/committee-minutes-of-evidence/session-2011-2012/april-2012/air-passenger-duty-consumer-council/>

<sup>32</sup> Written submission from the Northern Ireland Chamber of Commerce.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/northern-ireland-chamber-of-commerce.pdf>

<sup>33</sup> Written submission from the Northern Ireland Chamber of Commerce.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/northern-ireland-chamber-of-commerce.pdf>

<sup>34</sup> Written submission from Ballymena Borough Council.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/ballymena-borough-council.pdf>

45. Members are mindful that the Executive's Economic Strategy stated that the decision to devolve certain APD powers to the Assembly would be used to "strengthen the attractiveness of the region as a business and tourism destination."<sup>35</sup> In this regard, the evidence presented to the Committee therefore suggests that significant potential exists to develop business links with countries such as Brazil, India and China, and to increase tourism opportunities by attracting visitors from North American, Australian and Chinese markets.<sup>36</sup>

### **International context of APD**

46. According to ABTA:

*"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".<sup>37</sup>*

47. Relatively few European countries currently operate an APD type duty. A number of European countries have either considered or introduced aviation duties in recent years, but nowhere in Europe imposes duties at as high a level as those in the UK.<sup>38</sup>

48. According to research by York Aviation and BAA Scotland, a number of governments have either not implemented, reduced or withdrawn aviation duties because of the potential damage to the air transport industry.<sup>39</sup>

49. In the Netherlands, passenger demand fell by 8% between 2008 and 2009 following the introduction of air passenger tax. This tax was withdrawn after only a year because of the dramatic downturn in demand at Schiphol Amsterdam Airport.<sup>40</sup> The Belgian government scrapped its air travel tax in 2008 only 24 days after introducing it, due to massive protest from airlines, airport and passengers.<sup>41</sup> Denmark also phased out its air passenger tax in 2006-07, after a strong response from the business and labour market lobby to a government initiative to abolish the tax.<sup>42</sup>

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<sup>35</sup> Northern Ireland Executive Economic Strategy, March 2012, p. 28.

<http://www.northernireland.gov.uk/ni-economic-strategy-revised-130312.pdf>

<sup>36</sup> Official Report, 25 April 2012.

<http://www.niassembly.gov.uk/assembly-business/official-report/committee-minutes-of-evidence/session-2011-2012/april-2012/air-passenger-duty-northern-ireland-chamber-of-commerce--federation-of-small-businesses/>

<sup>37</sup> Written submission from ABTA.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/abta-the-travel-association.pdf>

<sup>38</sup> Assembly Research Paper, 27 April 2012.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

<sup>39</sup> York Aviation – The Impact of the 2010 APD Increases in Scotland

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/york-aviation-impact-2010-apd-increases-in-scotland-.pdf>

<sup>40</sup> Assembly Research Paper, 27 April 2012.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

<sup>41</sup> <http://www.takingupresidence.com/belgium/transport/air-ticket-tax-defeated.3.html> (accessed 4 May 2012)

<sup>42</sup> Københavns Lufthavne <http://www.cph.dk/CPH/UK/Newsroom/News/2004/Danish+passenger+tax.htm> 9 Nov 2004 (accessed 4 May 2012)

50. The Irish Government has reduced its air ticket tax from €10 to €3 in an effort to boost its tourism economy and has indicated that it will reduce this tax to zero, subject to reciprocation by the airlines in terms of delivering additional capacity.

### **Exemption versus Devolution**

51. The PwC report *Devolving Air Passenger Duty* made the recommendation of either:

- “*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.*”<sup>43</sup>

It is the second approach, devolution, which is proposed (to a more limited extent) by the Finance Bill 2012.

52. The Scottish Highlands and Islands are exempt from APD applying to flights departing from their airports (but not on flights returning from other parts of the UK). This is due to a section in the *Finance Act 1994* (as amended by the *Finance Act 2000*) exempting airports in areas with a population density less than 12.5 persons per square kilometre.<sup>44</sup> Several stakeholders suggested that the same arguments could potentially be made for Northern Ireland to be granted an exemption from APD. For example, the Consumer Council has argued that the Scottish exemption sets a precedent for flexible application of the short-haul rate of APD with respect to Northern Ireland as a result of the region’s peripherality.<sup>45</sup>

53. In its response to the 2011 Treasury consultation, ABTA 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.<sup>46</sup>

54. The Consumer Council has also argued that the Northern Ireland Executive should continue to press Treasury to take further action to remove the unfair burden of APD on Northern Ireland passengers, commenting that:

*“It is essential...that any reduction in APD for flights to and from Northern Ireland should not be accompanied by a subsequent reduction in the Northern Ireland Block Grant.”*<sup>47</sup>

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<sup>43</sup> PwC (NI), [Helping economic take off: Devolving Air Passenger Duty](#), 16 December 2011, p.15.

<sup>44</sup> Assembly Research Paper, 27 April 2012.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

<sup>45</sup> Written submission from the Consumer Council for Northern Ireland.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/consumer-council-ni.pdf>

<sup>46</sup> Written submission from ABTA.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/abta-the-travel-association.pdf>

<sup>47</sup> Written submission from the Consumer Council for Northern Ireland.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/consumer-council-ni.pdf>

55. The Committee questioned the Department on whether Northern Ireland could be considered for an exemption on APD on a similar basis as the Scottish Highlands and Islands. In response, the Department advised that the Scottish 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. The Department believes that a similar exemption for Northern Ireland was not considered workable as the low population density argument was and is not applicable locally. Furthermore, the Department stated that:

*“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.”<sup>48</sup>*

### **Devolution of further APD powers**

56. Various stakeholders pointed out that, while they welcomed the devolution of APD rates for direct long-haul flights, this will affect only a small proportion of passengers since 98.5% of flights from Northern Ireland are within Band A. For example, the Chief Executive of George Best Belfast City Airport commented that “the moves that have been made to date on air passenger duty have left 98% of that problem untouched.”<sup>49</sup>

57. It has been noted that Civil Aviation Authority passenger statistics show that, on average, 17% of all UK departing flights are on domestic services within the UK. In comparison, 75% of Northern Ireland passenger movements are on UK domestic services, demonstrating a much higher dependence on air travel.<sup>50</sup>

58. The Consumer Council argued that:

*“The planned devolution of APD bands B, C and D to the Northern Ireland Assembly falls far short of adequately addressing the APD burden borne by Northern Ireland consumers. Given Northern Ireland consumers’ high dependence on air travel, APD, in its current structure, is unfair as it financially disadvantages NI consumers in comparison to their GB counterparts.”<sup>51</sup>*

59. In its written submission to the Committee, Aer Lingus argued that all APD rates, both long haul and short haul, should be removed entirely as it constitutes a “direct impediment for both business and tourist air travellers.” Aer Lingus commented that:

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<sup>48</sup> DFP Follow-up Correspondence, 1 May 2012.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/dfp-follow-up-correspondence-1-may-2012.pdf>

<sup>49</sup> Official Report, 18 April 2012.

<http://www.niassembly.gov.uk/assembly-business/official-report/committee-minutes-of-evidence/session-2011-2012/april-2012/air-passenger-duty--belfast-international-airportgeorge-best-belfast-city-airport/>

Written submission from the Consumer Council for Northern Ireland.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/consumer-council-ni.pdf>

<sup>51</sup> Written submission from the Consumer Council for Northern Ireland.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/consumer-council-ni.pdf>

*“At a time of continuing economic challenge and where the UK government and the NI Executive are properly encouraging companies to export as a means to stimulating the economy, it seems incongruous to be applying a tax to their efforts. Furthermore as we rightly celebrate an important year of tourism opportunity in Northern Ireland it is similarly counter-intuitive to be increasing the cost of access to the region through APD on short-haul flights.”<sup>52</sup>*

60. Similarly, Flybe welcomed the Government’s decision to reduce the APD charges for long-haul international flights from Northern Ireland to the domestic rate but noted that:

*“This represents a tiny fraction of flights into or out of Northern Ireland. The policy change that would most benefit the Province, and genuinely give Stormont powers to determine its own economic future, would be the devolution of Band A APD to Northern Ireland.”<sup>53</sup>*

61. During the evidence from DFP officials, the Committee raised the issue of broadening the scope of the provisions in the Finance Bill to include devolution of powers over Band A rates. In response, the DFP officials stated that, in order to devolve greater powers, it may be necessary to amend the Northern Ireland Act 1998 rather than delivering a reduction solely through the Finance Bill 2012.<sup>54</sup> The Departmental officials stated that:

*“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.”<sup>55</sup>*

62. The Committee sought clarity on this issue and was informed that Treasury took legal advice on whether devolving powers for all long-haul flights from Northern Ireland could be done through a Finance Bill amendment, or whether it would be considered a constitutional issue. According to the Department, no definitive position was taken on whether devolving greater powers would require a change to the Northern Ireland Act 1998. The Department also sought legal advice on this issue and again “there was no definitive position as to when the devolution of powers becomes a constitutional issue, as opposed to a simple tax issue.”<sup>56</sup> Members are mindful that clarity is needed on the scope for transferring further APD powers without the need to amend the 1998 Act, in order to inform the business case and process for reducing or abolishing APD on Band A flights departing from Northern Ireland.

63. In their evidence, the DFP officials stated that devolving the power to set rates for all flights and reducing APD to zero across-the-board would cost around £60 million per

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<sup>52</sup> Written submission from Aer Lingus.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/aer-lingus.pdf>

Written submission from Flybe.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/flybe.pdf>

<sup>54</sup> Official Report, 14 March 2012.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/dfp-evidence-140312.pdf>

<sup>55</sup> Official Report, 14 March 2012.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/dfp-evidence-140312.pdf>

<sup>56</sup> Official Report, 2 May 2012.



annum in block grant reductions.<sup>57</sup> The FSB, however, pointed out that, although further devolution of APD could result in a reduction to the block grant of up to £60 million, this would be immediately balanced by the receipt of APD; it would then be up to the Executive to determine whether it wanted to alter the rates.<sup>58</sup> It was suggested during Committee evidence sessions that this could be done through a phased implementation of reduced rates across the different bands of flights, which could help boost air passenger numbers while reducing the cost to the Executive.

64. In its submission, the Committee for Enterprise, Trade and Investment stated that it “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.” It also recommended that “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.”<sup>59</sup>
65. The ETI Committee provided a copy of the DETI analysis of APD and Northern Ireland passenger numbers, completed in May 2011, which was used to inform the DFP response to Treasury’s UK-wide consultation on reform of APD. In response to queries from the Committee, DFP explained that, while this analysis fell short of a full business case and was unable to draw definitive conclusions, “the case for reducing APD was stronger for long-haul routes than those within Band A.”<sup>60</sup> That said, the DETI analysis found that “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”.<sup>61</sup> The question now arises as to whether the further increase in Band A rates from April 2012 will reinforce the downward trend in passenger numbers. Moreover, members have noted that the development of a full business case would require account to be taken of the opportunity costs of rising APD rates, in terms of the potential additional visitors and business to Northern Ireland from reduced or zero Band A rates.
66. A number of stakeholders have indicated a willingness to be involved in further researching and developing the business case for a reduction in APD rates for all flights departing from Northern Ireland. This willingness was evident, for example, in the evidence provided by the representatives of Belfast International Airport, Belfast City Airport, ABTA, FSB and the Northern Ireland Chamber of Commerce. In addition, York Aviation wrote to the Committee to outline its experience in undertaking research into the impact of rises in APD, the potential for differential regional rates of APD and the

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<sup>57</sup> In answer to an oral question in the Assembly Chamber on 30 April 2012, the Minister of Finance and Personnel suggested that the cost of removing APD for all flights from Northern Ireland would be somewhere between £60 million and £90 million.

<sup>58</sup> Written submission from the FSB.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/federation-of-small-business.pdf>

<sup>59</sup> Written submission from the Committee for Enterprise, Trade and Investment, 4 May 2012, p. 3. <http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/enterprise-trade-and-investment-committee-submission.pdf>

<sup>60</sup> DFP Follow-up Correspondence 1 May 2012.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/dfp-follow-up-correspondence-1-may-2012.pdf>

<sup>61</sup> Written submission from the Committee for Enterprise, Trade and Investment, 4 May 2012, p. 3. <http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/enterprise-trade-and-investment-committee-submission.pdf>

potential for APD to damage route development in the UK. York Aviation offered its assistance in undertaking specific research into the business case for reducing/removing APD on Band A flights from Northern Ireland.<sup>62</sup>

67. The Committee is mindful that, in May 2011 the Economic Advisory Group undertook a detailed examination of the impact of reducing corporation tax on the Northern Ireland economy<sup>63</sup> and members believe that a similar exercise could be undertaken in relation to APD. In this regard, as the Consumer Council has pointed out, it is worth looking to the experience of those European member states which have abolished air tax, such as Denmark, Netherlands and Belgium, “to see the economic impact and what they believed removing it would bring back to their economy.”<sup>64</sup>
68. During oral evidence, DFP officials pointed to an apparent willingness on the part of Treasury to consider the option of devolving APD powers for all long-haul flights, rather than just direct long-haul flights. This would include flights where passengers leave from a Northern Ireland airport but take a connecting flight from another airport. This may, therefore, indicate the potential to persuade the UK Coalition Government for full devolution if the Executive decides to pursue this option. The Departmental officials also noted that, under the current Westminster parliamentary timetable, it may be possible to address the wider devolution of APD as part of any primary legislation to amend the Northern Ireland Act 1998, which could also include the devolution of corporation tax powers. Parliamentary time to amend the Northern Ireland Act 1998 has been scheduled for the latter half of 2013 and DFP noted that “that same Northern Ireland Act timetable, if it is to include corporation tax, which we hope it will, could include other provisions as sought and agreed by the Executive and the Assembly with the Government.”<sup>65</sup>

### **Other issues**

69. The Committee raised a number of other issues arising from the provisions in the Finance Bill. Members questioned whether the provisions in the Bill which restrict the further disclosure of information on APD, provided by HMRC to the Secretary of State, Treasury and DFP, could have an impact on the preparation of a robust business case in relation to the devolution of APD. The Department explained that these provisions relate to data protection issues, such as those around individual operators, rather than analysis data and confirmed that such restrictions also apply in GB.
70. On the issue of the costs of administering the devolved powers, it was noted that the Northern Ireland Executive will be required to pay HMRC for some administration costs. DFP explained that, following devolution, setting a positive rate of APD in Northern

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<sup>62</sup> Written submission from York Aviation, 3 May 2012.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/york-aviation-impact-2010-apd-increases-in-scotland-.pdf>

<sup>63</sup> Economic Advisory Group, The Impact of Reducing Corporation Tax on the Northern Ireland Economy, May 2011.

<http://www.eagni.com/fs/doc/publications/impact-of-corporation-tax-on-ni-eag-report-final-report.pdf>

<sup>64</sup> Official Report, 25 April 2012.

<http://www.niassembly.gov.uk/assembly-business/official-report/committee-minutes-of-evidence/session-2011-2012/april-2012/air-passenger-duty-consumer-council/>

<sup>65</sup> Official Report, 2 May 2012.

Ireland would also require investment in some computer systems which could cost around £500,000.

71. The Committee noted the provisions in the Finance Bill which give “statutory effect” to the rate of reduction in Northern Ireland long-haul rates of APD from 1 November 2011 to 31 March 2012. The Committee questioned whether there were any legal issues arising from the Bill having retrospective effect in this regard. DFP officials explained that the purpose of this provision was to give legal effect to the decision already taken by Treasury to reduce APD on direct long-haul flights in Northern Ireland during this period. Members also questioned the position regarding rate increases from 1 April 2012. The Department confirmed that APD rates for direct long-haul flights will increase from £12 to £13 from 1 April 2012, until such time as APD rates are devolved to Northern Ireland, following which the intention is to reduce the rate to zero. On the issue of retrospective effect, the Committee is aware that Westminster Finance Bills often contain retrospective provision and that the rate increases from 1 April 2012 were announced in advance of the date from which they apply.
72. The Finance Bill also includes provisions which extend APD to small business jets, which are currently exempt due to restrictions on weight and size. This will result in most business jet passengers being subject to the same rates of duty as commercial aircraft passengers. Furthermore, luxury private airlines – aircraft above 20 tonnes but with fewer than 18 passenger seats – will pay double the higher rate of APD. However, the Committee research pointed out to DFP that, if the Assembly sets direct long-haul non-standard rates of APD to £0, this will create an anomaly where luxury private aircraft flying from Northern Ireland will be liable for a zero-rate of APD.<sup>66</sup>
73. In follow up correspondence, the Department has informed the Committee that discussions are on-going with HMRC to determine whether the Assembly could be given the power to set the private luxury aircraft APD rate at something other than twice the standard prevailing rate, should the Assembly wish to do so at a future date. Such a provision would state that unless otherwise provided for by the Northern Ireland Assembly the new premium business jet rate would be twice the standard prevailing rate. However, it would give the Assembly the power to set a different rate should it so wish. According to the Department, it is hoped that an amendment would be approved at Report Stage of the Westminster Bill, 2 July 2012, to give effect to this.<sup>67</sup> The Committee would welcome this amendment to the Finance Bill.
74. During the oral evidence from DFP officials, the possibility of the Assembly attaching conditions to a reduction in APD was also raised. Members questioned whether there are mechanisms which could be put in place to ensure that, if a reduction is made in APD, it will be passed on to the end user. Members also queried whether other European countries have successfully attached conditions to airlines in return for reductions in APD, for example that the savings would be passed on to customers, or that additional

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<sup>66</sup> Assembly Research Paper, 27 April 2012, p. 13.

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

<sup>67</sup> DFP Follow-up Correspondence, 10 May 2012.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/dfp-followup-correspondence-100512.pdf>

routes would added or established as a result. To inform its deliberations, the Committee commissioned preliminary research on this matter.<sup>68</sup>

75. This initial research examined the position in several other European states, including the Republic of Ireland, Holland, Belgium, Denmark, France and Sweden. In the case of the Republic of Ireland, it was noted both that the Government is open to abolishing the tax if an agreement with the airlines can be found in terms of increasing capacity and that half of the revenue from Air Travel Tax (approximately €9m) was used in the targeted cooperative tourism marketing of routes bringing inbound traffic to Ireland.<sup>69</sup> It was Holland's experience of gaining agreement from the airport operator to cost reductions, however, which was cited as a possible example of a government successfully attaching conditions to reduced APD.
76. In July 2008 the government in the Netherlands introduced an air passenger tax, which was set to a zero-rate in July 2009 and subsequently abolished, due to the negative effect it had on air travel within Holland.<sup>70</sup> In order to encourage a 'return' of passengers to Holland, the Dutch government cut the tax on the condition that the main airport, Amsterdam Schiphol, cut its fees in order to bring passengers back to the airport. Schiphol subsequently cut its costs, allowing the level of airport fees charged to passengers to drop relatively and encouraging a return of passengers to the airport.<sup>71</sup>
77. The Committee believes that further research is necessary to examine the possibility of lowering or abolishing the rate of APD with a conditionality on airlines, for example to increase the number of direct routes to/from Northern Ireland, to deliver a cost decrease in ticket prices for customers at least equal to the rate of APD, or to deliver further cost reductions or to increase the number of passengers travelling to Northern Ireland. Conditionality on airport operators to seek to lower costs and increase their sustainability, or to reduce airport fees charged to passengers, could also be examined. In addition, consideration could be given to other approaches, including the Republic of Ireland's ring-fenced use of air tax revenue and to creating a cooperative fund between airlines, airports and the Executive which seeks to bring more routes into Northern Ireland.<sup>72</sup>

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<sup>68</sup> Assembly Research Briefing Note, [Further information on Air Passenger Duty](#), 10 May 2012.

<sup>69</sup> Irish Times, 20 February 2012.

<http://www.irishtimes.com/newspaper/ireland/2012/0220/1224312051711.html>

<sup>70</sup> KiM Netherlands Institute for Transport Policy Analysis, [Effects of the Air Passenger Tax](#), February 2011, pp. 43-53.

<sup>71</sup> KiM Netherlands Institute for Transport Policy Analysis, [Effects of the Air Passenger Tax](#), February 2011, p. 69.

<sup>72</sup> Assembly Research Briefing Note, [Further information on Air Passenger Duty](#), 10 May 2012.

## **Key Conclusions and Recommendations**

78. Taking account of the evidence received, the Committee has arrived at the following key conclusions and recommendations:

- 1) APD is a regressive tax which is particularly disadvantageous to businesses, consumers and the wider economy in Northern Ireland, given both the peripheral location of the region, which results in greater dependence on air travel, and the proximity to airports in the Republic of Ireland which hold a competitive advantage. The negative consequences for Northern Ireland will be exacerbated by the further increases in APD rates levied by the UK Coalition Government from 1 April 2012. These increases are being applied despite evidence that APD is also damaging the wider UK economy. The Executive, in the first instance, should continue to press the case with other devolved regions, local authorities and other bodies throughout the UK for the abolition of APD.**
- 2) The proposed devolution of APD rates on direct long-haul flights is to be welcomed as an important step towards redressing the disproportionate burden of APD on Northern Ireland and both the Executive and Treasury are to be commended for the responsive action which has been taken to safeguard the vital Belfast-New York connection.**
- 3) The Minister of Finance and Personnel, together with the other applicable Executive Ministers, should now develop a coordinated action plan, in conjunction with all the key stakeholders, to maximise the economic opportunities arising from the devolution of Northern Ireland direct long-haul rates of APD, including with the aim of establishing new direct long-haul flight connections to key business and tourism hubs.**
- 4) A strong case has been presented for reducing or abolishing APD rates on the 98.5% of flights from Northern Ireland which fall into the domestic and short-haul “Band A” as a measure to improve Northern Ireland’s connectivity with GB and with other European states, with a view to boosting business and tourism and helping to rebalance the regional economy, subject to rigorous cost-benefit analysis. However, given both Treasury’s insistence on devolution rather than exemption of APD and the determination of the UK Coalition Government to retain APD at a UK level as a revenue-raising measure, any future reduction in APD on Band A flights from Northern Ireland is likely to be achieved only through the further devolution of powers to also cover Band A rates.**
- 5) A cost-benefit decision on the devolution of powers over Band A rates should take account of the fact that the Executive would only incur a substantive cost if and when the devolved powers were used to reduce the Band A rates; and the estimated £60m per annum total cost, which has been cited, would only apply if the Executive opted to set a zero rate across all the APD bands. Also, the Executive could take an evidence-based approach to reducing the rates for particular bands, with decisions taken on the basis of forecast return on investment.**

- 6) The Minister of Finance and Personnel should now propose that the Executive commissions independent expert research into the business case for reducing or abolishing APD on Band A flights departing from Northern Ireland, which would inform Executive consideration of whether/how wider devolved powers over APD should be exercised. This research should include: an assessment of the opportunity costs of non-action; rigorous economic modelling and forecasting of options; and lessons from other EU states which have reduced or abolished APD, including examples where governments have attached conditions to APD reductions to ensure resultant benefits for consumers or the wider economy. As part of this initiative, the Executive should proceed with a strategic decision on whether to press the UK Coalition Government for the devolution of the wider APD powers at the earliest opportunity.**
- 7) Given the time constraints which now arise, seeking to include the devolution of Band A rates of APD within the provisions of the Finance Bill could risk losing the immediate opportunity for devolving Northern Ireland direct long-haul rates of duty. The Committee, therefore, supports the Minister of Finance and Personnel in seeking the Assembly's agreement that the provisions in clause 189 of, and Schedule 23 to, the Finance Bill, as introduced in the House of Commons on 10 May 2012, dealing with the devolution of Northern Ireland long haul rates of air passenger duty should be considered by the UK Parliament.**

## Appendices

### 1. Legislation

Legislative Consent Memorandum

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/legislation/dfp-legislative-consent-memorandum-finance-bill.pdf>

Finance (No. 4) Bill 2012 – Clause 189 & Schedule 23 and Explanatory Note – Annex attached

### 2. DFP Papers

Letter from DFP Minister to Committee, 5th March 2012

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/minister-letter.pdf>

Letter from DFP Minister to Committee, 5th March 2012: Appendix A

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/minister-letter-appa.pdf>

Letter from DFP Minister to Committee, 5th March 2012: Appendix B, C and D

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/minister-letter-appbcd.pdf>

Letter from DFP Minister to Committee, 5th March 2012: Appendix E

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/minister-letter-apppe.pdf>

DFP Response to HMT Consultation on Reform of Air Passenger Duty

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/dfp-response-to-apd-consultation.pdf>

DFP Follow-up Correspondence, 1 May 2012.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/dfp-follow-up-correspondence-1-may-2012.pdf>

DFP Follow-up Correspondence, 10 May 2012.

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/written-submissions/dfp-followup-correspondence-100512.pdf>

DFP Correspondence 15 May 2012

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/dfp-correspondence-15052012.pdf>

### 3. Research Paper

Assembly Research Paper, *Legislative Consent Motion: UK Finance (No. 4) Bill 2012 Air Passenger Duty*, 27 April 2012

[http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance\\_personnel/7112.pdf](http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/7112.pdf)

Assembly Research Briefing Note, *Further information on Air Passenger Duty*, 10<sup>th</sup> May 2012

<http://www.niassembly.gov.uk/globalassets/documents/committees/2011-2016/finance-2011-2016/air-passenger-duty/research-followup-paper-10052012.pdf>

#### **4. Written Submissions**

[www.niassembly.gov.uk/assembly-business/committees/2011-2016/finance-and-personnel/legislative-consent-motions/devolution-of-air-passenger-duty/](http://www.niassembly.gov.uk/assembly-business/committees/2011-2016/finance-and-personnel/legislative-consent-motions/devolution-of-air-passenger-duty/)



## **5. Minutes of Evidence**

[www.niassembly.gov.uk/assembly-business/committees/2011-2016/finance-and-personnel/legislative-consent-motions/devolution-of-air-passenger-duty/](http://www.niassembly.gov.uk/assembly-business/committees/2011-2016/finance-and-personnel/legislative-consent-motions/devolution-of-air-passenger-duty/)

## **6. Other papers**

[www.niassembly.gov.uk/assembly-business/committees/2011-2016/finance-and-personnel/legislative-consent-motions/devolution-of-air-passenger-duty/](http://www.niassembly.gov.uk/assembly-business/committees/2011-2016/finance-and-personnel/legislative-consent-motions/devolution-of-air-passenger-duty/)

## **7. Minutes of Proceedings relating to the Report**

<http://www.niassembly.gov.uk/assembly-business/committees/2011-2016/finance-and-personnel/minutes-of-proceedings/>