



Northern Ireland
Assembly

Committee for Finance and Personnel

**OFFICIAL REPORT
(Hansard)**

Air Passenger Duty: Consumer Council

25 April 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Conor Murphy (Chairperson)
Mr Roy Beggs
Mrs Judith Cochrane
Mr Leslie Cree
Mr David Hilditch
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Paul Maskey

Witnesses:

Ms Antoinette McKeown	Consumer Council
Mr Aodhan O'Donnell	Consumer Council

The Chairperson: I welcome Antoinette McKeown, who is the chief executive of the Consumer Council, and Aodhan O'Donnell, who is a director. The Committee has been taking evidence on the issue of air passenger duty (APD). A legislative consent motion will be debated in the Assembly. The Committee wishes to make a report to inform that, and we have asked for evidence from people to assist us in coming to our views. I ask you to make some opening remarks, following which members will ask questions or make observations.

Ms Antoinette McKeown (Consumer Council): Good morning, and thanks very much for giving the Consumer Council an opportunity to give evidence this morning. We have very specific statutory functions around air passengers, but we have a general statutory responsibility to represent the interest of passengers travelling to, from and within Northern Ireland. APD has been on our working books for some considerable time. We first raised it in 2006, and we produced a number of briefings in the past two years for MLAs, other political representatives and Ministers. We also produced a briefing of evidence to the Northern Ireland Affairs Committee (NIAC) on the matter last year.

We support NIAC's view that we should abolish air passenger duty in Northern Ireland. NIAC recognised that many people in Northern Ireland use air travel as an essential element of family and economic life — it is not a luxury. We welcome the proposed devolution to the Northern Ireland Assembly of APD rates for direct long-haul flights. However, given that 98.5% of passenger journeys are within band A, the proposed devolution of only bands B, C and D of APD rates will have little or no impact on consumers in Northern Ireland. We want the Northern Ireland Executive to take further action to remove what we see as the unfair burden on Northern Ireland passengers and everyday

citizens who have to travel to GB. Given that it is essential and not a luxury, the reduction in APD for those flights should not be accompanied by a subsequent reduction in the block grant. We want to talk to you for a couple of minutes about why we think that.

Mr Aodhan O'Donnell (Consumer Council): We identified a few specific points around the extra burden that Northern Ireland consumers have regarding air passenger duty. I will pick out some of the points that were included in the brief. The dependence on air travel is much higher for Northern Ireland consumers. The Civil Aviation Authority (CAA) statistics, which we looked at, show that 75% of movements of passengers from Northern Ireland are on domestic services, which comes under the short-haul band A rate of APD. That is compared with 17% of all broader UK movements. We clearly have a higher dependence on air travel. That is natural because we do not have the same access to rail links to other parts of the regions, but that brings with it a higher rate of taxation and cost to consumers in Northern Ireland.

We also have to recognise the fact that the air travel tax, as it is referred to in the South, is charged at €3, which highlights a significant disparity between the cost that Northern Ireland consumers flying out of Northern Ireland airports pay compared with travelling through Dublin Airport. That can affect the sustainability of some of our routes and the economic sustainability of our airports.

As Antoinette mentioned, although the move on the long-haul flights is welcome and should encourage links to more destinations, it is the case that 98.5% of passengers and consumers are unaffected by the change. So, we feel that more work should be done to try to have a more positive impact on the vast majority of passengers, who remain unaffected.

We can look across the water to the situation in the Scottish Highlands. That has been discussed before, and it is open for debate whether that provides a direct lift that could apply to Northern Ireland. However, we feel that there is a precedent: a variance in the tax has been applied. Some specific issues around population density and peripherality apply to the Scottish Highlands that may not directly apply to the situation in Northern Ireland. Nonetheless, there is a precedent to look at the impact of air travel costs when it is deemed to be an essential service, and the Northern Ireland Affairs Committee has clearly said that it is not a luxury but an essential connection.

Another issue that is coming down the line is the development of the high-speed rail network in GB. Obviously, that will have a very limited and negligible impact on Northern Ireland consumers because they will not have direct access to that; we will still be dependent on the air links.

I have two other points. Amongst consumers and the wider public, there is sometimes almost the belief that air passenger duty is a Europe-wide initiative or tax. At the moment, only four other countries charge air passenger duty at an EU level, and three countries recently removed it because of the economic disadvantage and the negative impacts that it has led to. A lot of people in other European countries have the choice of InterRail and good rail links whereas we, as an island off an island, do not have the luxury of such networks.

The Government have provided clarity by saying that APD is not an environmental tax. It was initially brought in as such, but it has been very clearly put forward that it is a revenue-raising tax, and there is sometimes confusion about how the emissions trading scheme will cut in. However, it is very important to see the difference between those two schemes and to recognise that air passenger duty has a national tax revenue approach as opposed to the wider emissions trading scheme. Sometimes, there is a lack of clarity about the difference between the two.

Those are the main points from our short brief, and that reflects the main thrust of it.

The Chairperson: Thank you very much. Your primary interest is obviously around consumers and the travelling public. The evidence last week from the airport managers was that this is specifically targeted at the North American connection. There is a question about whether it should be expanded to cover all flights, including short haul, but, as designed at the moment, or as proposed by the Department of Finance and Personnel (DFP) at the moment, it is specifically targeted. Continental has been absorbing the air passenger duty. So, the likelihood is that, if this is devolved in the way that it is currently designed and just relates to those particular flights, it will not be passed on to consumers.

Essentially, it will make Continental's service more viable because, as an organisation, it will recoup the cost that it has been absorbing rather than passing it on to passengers. Have you looked at that? Is there a possibility that it should be broadened? As it stands, it is not intended to benefit consumers directly, other than to ensure that a service remains available to them. Is there a possibility of passing that on?

You mentioned the experience in the Highlands, where there is an exemption rather than devolution of the power. In our case, the Treasury seems to be pressing towards the devolution of the power rather than the exemption route, and we are trying to get some clarity from DFP about the discussions that it has had in that regard. If that were the case, it would seem unlikely that we could avoid a hit on the block grant. There is a case to be made about the economic benefits, but it seems that, if devolution rather than exemption is the route that the Treasury wants to go down, a hit to the block grant, which you have said should not be the case, will perhaps be unavoidable.

Ms McKeown: I will take the second question and ask Aodhan to pick up on the first point. The bottom line for us is that the vast majority of Northern Ireland consumers who travel by air, 98.5%, travel to Britain and back. It is an unfair disadvantage relative to their GB counterparts, and our objective is to have that removed, not just to benefit Northern Ireland passengers but to benefit trade, investment, business and tourism in Northern Ireland, because people will go to the South for the €3 tax. If the Committee is saying that we can get that through an exemption and not devolution, that is a matter for the Executive, but, given that the Northern Ireland Affairs Committee has recognised that this is an essential part of life in Northern Ireland, we do not believe that it should come off the block grant. Chair, I recognise what you said in that devolution means that it will come off the block grant and that exemption means that it would not. Therefore, we would go for the latter.

The Chairperson: Fair enough. The other question was on passing the cost on to customers, rather than the companies themselves absorbing it.

Mr O'Donnell: There is a fundamental issue around air passenger duty that we believe is unfair. If, for example, you fly from Belfast to Edinburgh, a distance of around 104 miles, you pay more in tax than you would if you were to fly to Spain, Portugal or Italy. It does not make sense that a consumer pays that additional amount of money. The issue goes beyond air passenger duty. A lot of the issues that we have are around airline charges and additional charges. The Office of Fair Trading (OFT) has done a lot of work to ensure that the first price that you see is as close to possible to the final price that you pay. It is a worry that these are additional charges that are then rolled on to the cost that a passenger has to pay. Trying to find the best deal on flights is already complicated enough, never mind adding on credit card and debit card charges, car parking and baggage charges. If another charge were to be passed through from the airlines, that would be worrying and would have another negative impact on passengers who are already paying quite a lot more for travel from Northern Ireland airports.

Ms McKeown: If airlines have an opportunity to pass that on, they will take it. For example, last week, the Spanish Government introduced additional charges to outgoing flights from Spanish airports. Ryanair responded by saying that it would pass on that cost immediately, and that even people who had already bought tickets would be charged at the airport on arrival. Therefore, we know that the charges will be passed on and will not be absorbed.

Mr O'Donnell: That is a clear point. It is not to pick out particular airlines, but airlines are under European regulation to provide support and assistance to passengers in the case of delays or cancellations. That should be part of their operating model and be provided for as part of their business, but some airlines, particularly on the charging format, can see that, and under EU regulation 261/2004, charge €1 or £2 or £3 to provide that service. That could be the precedent where charges such as this are also passed through.

The Chairperson: In this case, the question is this: if the Executive were to have the power on air passenger duty and were to decide to deploy it across the full range of flights, making it cheaper to fly, how would you ensure that that saving is passed on the customers, rather than the additional charges being passed on? That will not be the case with Continental, which has already absorbed the air passenger duty.

Ms McKeown: That would have to be policed very carefully.

Mr Beggs: In an ideal world, there would be no air passenger duty. Have you put a figure on what the proposal to remove it would cost?

Mr O'Donnell: In the brief, we referred to some of the figures from the Minister of Finance and Personnel. Air passenger duty for passengers departing Northern Ireland brings approximately £60 million, and around £5 million of that relates to long-haul flights.

Mr Beggs: In the case of the long-haul flights, a clear business case has been made about the importance of having that connection with America from a business point of view and, hopefully, to bring in additional tourists. That service was clearly at risk of ending. Can you elaborate on what you think is the business case for removing £60 million of our limited public money in Northern Ireland? What other public services do you think should be cut to pay for it? Do you propose an increase in local taxes elsewhere?

Ms McKeown: First of all, I point to the fact that three other European member states have abolished the tax because of its negative economic impact. It is worth looking to the experience of those member states — Denmark, Netherlands and Belgium — to see the economic impact and what they believed removing it, in our case it is £60 million, would bring back to their economy.

We have not sufficiently explored the impact of air passenger duty, and the highest in Europe is in Northern Ireland. However, we know from research carried out in the past couple of years that, when people land in a particular jurisdiction as tourists, they do not tend to travel much more than an hour and a half or 100 miles from the airport. We see people coming into Dublin, as opposed to Belfast. Therefore, if you take that research and accept that people are not going to travel, you will see that they will not come north of the border, and that is worth exploring as well.

I do not think that it is for the Consumer Council to decide that, if we do not have the £60 million from APD, it will have to come from education or hospitals. That is clearly a matter for the Assembly and the Northern Ireland Executive. However, we definitely think that more research is needed, particularly when we have three clear examples in Europe.

Mr McQuillan: It is an unfair to put Antoinette in that position and ask her to make a decision, which should be the Executive's decision.

How would you feel, Antoinette, if it were phased in? Instead of a £60 million bill hitting the Executive in one lump sum, would it be a plus or a minus to have it phased in over two or three years?

Ms McKeown: Our position is that it should not be removed from the block grant, although however that is negotiated is, again, a matter for the Assembly and the Executive. However, as Aodhan said, we go back to the precedent of the Scottish Highlands and islands. You will have support already in Westminster from the Northern Ireland Affairs Committee, which said that air travel is an essential part of life and not a luxury. Therefore, we argue that an inequality of access is being faced by Northern Ireland passengers. We are talking about £60 million. However, we know that £32 billion has been set aside for high-speed rail in England and Wales, and that is of no benefit to Northern Ireland passengers. Therefore, there is sufficient negotiating power and support to say that it should not be removed from the block grant. There is a strong evidence base. By going to the three other countries and looking at their experiences, you might also strengthen your evidence base, given that we are desperately trying to kick-start the economy here and that we have suffered worse than our GB counterparts in the recent recession.

Mr O'Donnell: You asked about phasing. Lessons could also be learned from the Republic, because it went from a €10 charge for flights over a certain distance to €3, and there was a commitment to reduce air travel tax completely. Therefore, there are lessons that could be learned from that as well. I am sure that research or evidence is available.

Mr Cree: I think your argument is that it is not so much the devolution that brings the cost with it, it is the exemption, and, if that is your argument, I certainly agree with it. How strongly have you researched the Highlands and islands case?

Mr O'Donnell: We have information on that. We have also looked at how the Scottish Executive have worked that through and some of the criteria that have been in place to get that exemption, as certain criteria have to be met. Certainly, Northern Ireland would meet the population density criterion, although I do not think that it meets the peripherality criterion. We have information, and we would be happy to share our understanding of how the Scottish Executive's exemption has worked and the applications that had to be made through Europe to allow that to be facilitated. It is our view that, as I said earlier, there may not be a direct fit or a lift, but there is a precedent and maybe lessons could be learned from that. I am happy to share analysis of that at this stage.

Mr Cree: That would be helpful.

Mr McLaughlin: Thank you very much, and hello again. The arguments that you advance are powerful, particularly on the rapid-rail transport system as something that is, effectively, paid for out of tax revenues but would have no impact here. Another area of study would be the opportunity costs for the economy here regarding the traffic that goes through Dublin and which disperses, if it does so at all, within a 100-mile radius and would not normally reach the North. In calculating the cost of removing air passenger duty, we also have to calculate the opportunity. Not enough attention has been paid to that.

Adrian's question is a legitimate one: we can road-test this with a modulated approach whereby we introduce a reduction, calculate the cost and the benefit and then proceed further down the road. There is a strong argument for seeking the removal of air passenger duty and the power to remove it, after which the Executive can develop their own local responses to local problems.

The Chairperson: Thank you very much for that; it has been very helpful. If you can supply any further written evidence to the Committee staff, we will circulate it. We will be looking into other issues as well, and we will continue to ask questions of DFP about the exemption argument as opposed to the devolution argument.