



Northern Ireland  
Assembly

Committee for Finance and Personnel

# OFFICIAL REPORT (Hansard)

Air Connectivity Study: DFP/DETI Evidence  
Session

18 September 2013

# NORTHERN IRELAND ASSEMBLY

## Committee for Finance and Personnel

Air Connectivity Study: DFP/DETI Evidence Session

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**Members present for all or part of the proceedings:**

Mr Daithí McKay (Chairperson)  
Mr Dominic Bradley (Deputy Chairperson)  
Mrs Judith Cochrane  
Mr Leslie Cree  
Mr Paul Girvan  
Mr John McCallister  
Mr Ian McCrea  
Mr Mitchel McLaughlin  
Mr Adrian McQuillan  
Mr Peter Weir

**Witnesses:**

Mr David Thomson	Department of Enterprise, Trade and Investment
Mr Bill Pauley	Department of Finance and Personnel
Mr Tony Simpson	Department of Finance and Personnel

**The Chairperson:** I welcome Mr Bill Pauley, head of the strategic policy division in the Department of Finance and Personnel (DFP); Mr Tony Simpson, also representing the strategic policy division; and Mr David Thomson, the head of the policy group in the Department of Enterprise, Trade and Investment (DETI). Do you wish to make any opening statements before we proceed to questions?

**Mr Bill Pauley (Department of Finance and Personnel):** I will make a very brief statement, Chairperson. Thank you for the opportunity to update you on this work. As you said, the Minister sent you an update towards the end of last week with some papers indicating that we would be happy to discuss the detail of that with you. We had previously sent you the terms of reference for the study that we are doing. The terms of reference located this work in the economic development strategy and committed us to looking at options that would improve connectivity to key international, GB business and inbound tourism markets. In doing so, we want to consider all the factors that influence airlines' decision-making when planning routes. Air passenger duty (APD) is, of course, one aspect of that. As we see it, that is the Department of Finance and Personnel's main reason for being involved in taking forward the connectivity study.

The Department's view of air passenger duty has not really changed since that which we outlined in our submission to the Government's consultation on the subject in 2011. We said then that we thought that it was an unfair tax, that the rates were prohibitively high, that it damaged business and tourism and that it impacted more on the regions than on other parts of the UK, particularly regions such as Northern Ireland, which has limited access to other modes of transport such as rail.

The other relevant factor is that the 'Together: Building a United Community' document, which the First Minister and the deputy First Minister signed alongside the Prime Minister on 14 June, includes a commitment that the Executive will examine the potential for devolving specific additional fiscal powers and that that work will be done by autumn 2014. The work will include consideration of air passenger duty alongside all the other duties, and it is my expectation that that will be informed by this study.

David will say a few words as the senior responsible officer for the project.

**Mr David Thomson (Department of Enterprise, Trade and Investment):** I want to make just a few comments, Chairperson. Thank you for the invitation to be here. Connectivity is a big issue for us because the economic strategy is largely based on exports, and you cannot export unless you have good connectivity. Tourism is also a key issue for us because you cannot have tourism unless you have good connectivity. It is an area on which my Minister places a high priority, and she continues to work with the carriers, primarily air carriers but also sea carriers. We are keen to do this study. We have already done quite a lot of work on connectivity, and we continue to look at it.

**The Chairperson:** Thank you very much, gentlemen. The work that has been done is excellent. There is a lot of detail that will be of use to the Committee. We have already done a lot of work on air passenger duty specifically, and we have a lot of interest in the issue. The report is a very good one, but we already know its general thrust. We know the arguments and the pros and cons of APD in particular. Sometimes, I get the feeling that the Departments are, perhaps, creating a protracted process around this rather than cutting to the chase and making a concrete decision about air connectivity, specifically APD. There is a lot of good detail, but we were already aware of much of it.

**Mr Pauley:** I am not sure that we are fully aware of all the factors that affect an airline's route-planning decisions. We know that air passenger duty is part of that, but we do not know how big a part or how it might differ for different routes. We hope that this study will show how big a part it can be.

In our work so far, the literature review, for example, shows how responsive to changes in price growth and changes in passenger numbers might be. It also shows the different categories of passengers: whether they are tourists, business partners or visiting friends and relatives. All of that can help the analysis. Our undertaking to the Committee was to look at all the costs and benefits of devolving further, or seeking to devolve further, air passenger duty powers to the Executive. All those factors are important in that.

In the context of the other factors that affect an airline's decision-making, we also want to know whether reducing or removing air passenger duty — a power that we do not have — would affect passenger numbers or significantly affect the number and availability of routes that we have. We do not yet know that. The literature review identified some of the issues, and we will go on, informed by that review, to look at current connectivity and how that might change.

**Mr Mitchel McLaughlin:** On that point, devolving the powers to the Assembly has no cost implication; it is at the stage of their implementation that you have to do a study on the costs versus the benefits. Taking a decision in principle to take on the powers costs nothing. We would give ourselves the flexibility, scope and potential to examine the costs versus the benefits of how we would use them. Why do we not cut to the chase and have the discussion about whether we want to take on those powers and then, on a case-by-case basis, examine how we would use them? We cannot answer all of those questions in advance, and a study serves only to protect the decision.

**Mr Pauley:** You are right that there is no immediate cost to the block grant from devolving a power. I will explain how the block grant adjustment mechanism would work. We would have an amount equivalent to the level of duty at that time, and the block would be reduced by that amount. Then, we would have to collect the receipts at the same level of duty, presumably at the rate at which it was devolved. If we were to leave it at the same rate, it should be exactly the same. Apart from an administrative cost that we would have to pay to HMRC, because it would be doing that for us rather than for itself, that cost should be the same.

The other feature is that the reduction in our block grant would grow over time, in line with growth in the economy. That is the basis on which Treasury has already devolved duties to Scotland. Indeed, our existing air passenger duty reduction grows over time in line with projected passenger numbers. So we would have to decide whether to mirror any changes in the level of duty that the Government introduced nationally, and any that we did not introduce would lead to a block grant reduction. You

are right that unless we removed it or halved it, the total value of what is now band A air passenger duty only would not be a cost.

**Mr M McLaughlin:** There is also a cost if our economy continues to stagnate and our competitors, particularly in Dublin, abolish, or virtually abolish, air passenger duty. There would be a cost to the competitiveness of the products that we have to offer here. Those costs have to be factored in. We have to find the quickest way of making a decision on whether to take on these powers.

**Mr Pauley:** We do not yet know those costs and benefits. We hope that, after the study, some of those will be clearer to us.

**The Chairperson:** When will the study be complete?

**Mr Pauley:** We are on target, so we still aim to present a report to Ministers around the end of the year, which is roughly the timetable that we outlined to the Committee. The two phases of the work — the literature review and the scoping exercise — are substantially complete. We are now working on the second part.

**The Chairperson:** Can it be any sooner? The frustrating thing is that that would be another year down the tubes awaiting the report, and it will tell us what we already know. Is there any possibility that you can bring it forward? What remains to be done?

**Mr Thomson:** I do not think that we can bring it forward. You are absolutely right in saying that a lot of work has been done on this. A lot of work was done on APD, particularly when the other rates were devolved. A lot of work has been done by DFP and us. It is a very complex area, particularly APD and band A, which is why we want to look at everything.

In answer to your specific question, we will ask the University of Ulster to do the next phase of its work, but we also need technical expertise. We have approached Central Procurement Directorate (CPD), and we will procure that specialist expertise. I suspect that those specialists will not be appointed until the end of October or November, depending on when CPD can issue and process the competition. Until we have those folks feeding in specialist expertise, we cannot finish the report. That is why we are aiming for the end of this year.

**Mr Weir:** To some extent, the Chair's last point covered one half of what I was doing, which was looking at the road map for what steps need to be taken to complete this. It is a very significant decision, and, obviously, it is very important to get it right. A cost-benefit analysis of any particular step will be critical. There is no point in doing something that gives a little boost to one side if that benefit is outweighed by the cost. Another element is that we could end up exporting consumer spend.

The other side of the coin — one of my colleagues mentioned this to me — are the decisions that we take on the basis of the current APD framework and its devolution. Are there any indications that the overall context of the British Government position remains the same, or do we regard their position as being reasonably fixed, stable and unlikely to change? Is there any indication of a shift in the Westminster Government's opinion on APD and whether they might seek to reduce it in the long run? Any change could have a significant impact on how we implement any power.

**Mr Pauley:** The Chancellor was lobbied quite heavily in the run-up to this year's Budget on air passenger duty for the UK as a whole. I know that the Committee heard from PricewaterhouseCoopers (PwC), which produced for the major airlines a major report on the costs and benefits of air passenger duty to the UK economy as a whole. The Government are in revenue-raising mode and have clearly stated that, if they were to remove air passenger duty, they would need to raise a similar amount of revenue from some other source, tax or duty. Indeed, our expectation is that they would move to do so.

The position of the Westminster Government is that, because passenger travel is not subject to VAT and airline fuel is not subject to duty, this is an area in which it is legitimate to raise some duty. That said, there is a strong UK-wide lobby against that, not only from the airlines but from the other devolved regions and the English regions. The largest number of responses to the Government's consultation came from the Manchester area. Those responses focused on the impact that such a duty would have there, and our view is that that position on air passenger duty strongly counters the

current position of the Government. At a time when the Government are raising revenue, we do not expect them to change their position in the near future. Can it be changed in the longer term? There is certainly a view that the current rates of air passenger duty, particularly those for bands B, C and D, are prohibitively high.

**Mr Weir:** On that point, I appreciate that there is a working assumption that the current position will continue at least in the short to medium term. In your report and analysis, are you looking at any economic modelling to take account of any adjustments that might be made? I appreciate that what you described seems to be the reasonably logical position of the Government. However, we are also well aware, and have seen even this week, that Westminster Governments work in a cycle, in that they often slowly move within the final 18 months to two years of their term. In the early stages of any Parliament, they tend to dish out whatever punishment they need, whether in the form of revenue raising or spending cuts. They then start to throw out what appear to be incentives to voters or industry in the run-up to an election. An example this week, which is outside our remit, is a major spend commitment — *[Interruption.]* — I do not know whether that was George Osborne phoning to let us know — across the water of a £600 million investment in free school meals. There are situations in which rabbits are pulled out of the hat in the final two years of a Parliament. I appreciate that we need a working assumption, but is any flexibility built into the economic modelling of cost-benefit analysis so that we can estimate what the impact of any contextual changes might be?

**Mr Pauley:** We do not have a model of our local economy that can do that. The PricewaterhouseCoopers report modelled from the UK economy and concluded that tax revenues generally would increase by more than the amount currently raised from air passenger duty. From a local perspective, we do not get those wider revenues, so any reduction for us would mean that those increases and other revenues would benefit the UK Exchequer rather than the Executive because the duties that would rise are not ones for which we receive the receipts.

**Mr Weir:** It is not always as straightforward as that. A revenue rise can be used to help to fuel government spend, and there could be Barnett consequentials from that.

**Mr Pauley:** We would get 2%, based on the Barnett calculation, depending on the area and the weighting. The issue for us is the scale of band A costs. We also know that a significant proportion of those who would benefit leave Northern Ireland to buy goods and services elsewhere through external tourism. So, in effect, there would be quite a bit of deadwood associated with this.

**Mr Weir:** I understand that. As part of your model, are you factoring in consumer behaviour? Let us take the example of an individual who is, potentially, going to spend a day away. Without this, the incentive is to hop on a plane to do a day's fairly expensive shopping in London as opposed to spending the money in the local economy. That is drilling it down to an individual. Under those circumstances, incentivising somebody to get on a plane is a net loss to the economy.

**Mr Pauley:** Absolutely. There are issues like that in band A rates. I referred earlier to the elasticity in people's responsiveness to a change in price. The work in the literature review — largely based on the PwC study that we referred to — has shown that the responsiveness of consumer behaviour to a change in price varies according to the type of travel that they are undertaking. A business consumer cares less about price, and someone coming to visit friends and relatives here cares less again. Different again are people who just want a holiday and can go to Dublin, here or anywhere in Europe for their long weekend. Their choice is more responsive to a price change.

**Mr Weir:** I appreciate your point. However, it is slightly unfeeling to say that I will come home to visit my family if air passenger duty is cut; otherwise, they can make do with a phone call.

**Mr Pauley:** Those people are less inclined to be affected by that. The choice of location is determined for them, so there are other factors — whether to come by boat or fly to Dublin and take the train. Those are the choices available to them.

**Mr Weir:** Presumably, built into the study would be the impact of choice relating not to the destination but the mode of transport. Presumably, part of this could mean a direct gain to the airlines, but that may come simply as a transfer of costs. There may, for example, be a loss to boats and the seafaring side. I presume that will be built into the final figures that you aim to come up with.

**Mr Pauley:** Other available modes of transport are an aspect of the study.

**Mr Girvan:** Thank you for your presentation. I come back to the point that Peter raised about the British Government and Westminster looking at doing away with APD entirely. That is the line that should be followed, given what is happening in other European countries. Irrespective of that, we should be pedalling the story of what happened with the Scottish islands. They were able to negotiate so that APD will be reduced and done away with. Those islands have got away with that derogation without it having any impact on what they receive from Whitehall. However, that is another argument.

You mentioned the PricewaterhouseCoopers report, which bore out very strongly that we have to look at Northern Ireland on the basis that people also want to travel to Northern Ireland, not just from it. We have heard it said, "Build it and they will come". Let us see whether we can work something here. If we were to devolve the power, which is what we should be looking at, irrespective of whether we implement it, we would be in a position to make decisions about where we go on it. Until we do that, we are juggling balls —

**Mr Mitchel McLaughlin:** Doing scoping studies.

**Mr Girvan:** It is not happening. A lot of this has been held in the air for too long. Unfortunately, it is causing a problem, and we need to bite the bullet and make a decision on whether we make a total calculation on the basis of all bands or on the basis of how it will impact on Northern Ireland's economy. A greater body of work needs to be done on how Northern Ireland's economy would benefit, not necessarily on what we would lose from the block grant but on what could be gained from an increase in the overall number of people coming into Northern Ireland. Let us be honest: people spend. Unfortunately, with a journey of two hours down the road, people can travel from Dublin, and many decide to do so. I do not want that to happen. I want people using Northern Ireland as their gateway and their opportunity. This should be one of the tools that we use to grow our economy. I do not see it as leading to a reduction in money. Yes, we know that we have to calculate the cost of the long-haul Newark connection and how it will impact on us. That calculation has been made. We must now investigate and go into more detail.

As was pointed out earlier, we have known about this for quite some time — since December. It has taken us a long time to get to this point. Will the PricewaterhouseCoopers report be included in relation to the net benefits that can be brought to the Northern Ireland economy by looking at the issue the other way round? This was a great year for tourism, and a number of major events took place. We can build on those and use them as an opportunity to sell Northern Ireland, but not only from a commuting perspective; we should use them from a tourism angle and to be competitive.

**Mr Pauley:** The PricewaterhouseCoopers report shows how an economy can benefit. However, it is dangerous to go so far as to calculate that tax revenues will rise, because we do not receive those. Nevertheless, it is an indication that the UK economy as a whole —

**Mr Girvan:** Is that not an argument that we should make to Whitehall? If we can show that tax revenue will rise, we can say, "Let us be honest: this does not cause you a net loss of every penny of APD, because you will have a gain in tax revenue." So let us say that that can be factored in. Those discussions need to be held.

**Mr Pauley:** Whether they would rise for Northern Ireland has not yet been calculated. I agree that your point is one that would be made to Treasury as part of the debate on whether we should seek devolution of this power. The Executive have not yet taken a position on whether they would seek further air passenger duty powers. Indeed, we do not know whether, if we asked, the Government would agree to it. Whether to give such powers to Scotland and Wales was part of the Government's previous consultation in 2011, and they did not do so. The only outcome was the issue specific to us, which related to the particular circumstances that we faced at the time. That was the only aspect that was devolved. Interesting work will come forward during the autumn as the Government consider their response to the Silk commission report in Wales, which included the proposal that consideration be given to devolving limited powers to Wales, similar to our limited air passenger duty powers. It remains to be seen whether the Government will agree to that, particularly in light of their study showing that there would be an impact on, for example, Bristol. That does not apply here.

**Mr Girvan:** We are in a different boat.

**Mr Pauley:** It is a different situation, but Bristol is to Wales as Dublin is to us. So it is not a given that the Government will agree to devolve those powers. Certainly, we understand the other point, which is that the Government might change their position, and I think that they could.

They have done so for other duties. At times, we were successful in getting the carbon price floor derogation. We did not have to pay a block-grant adjustment on that because we argued that Northern Ireland was unique, in that our energy market is an all-island energy market as opposed to one integrated with the UK and the European dimension of that. So the Government can change their position. When they agreed to devolve the air passenger duty powers that we got, some of us were surprised at the time. The previous Finance Minister has stated very clearly that that was due to the personal intervention of the Chancellor, whereas many others were opposed to it. Seeking further devolved powers can be a difficult ask, and we do not know whether they would agree to it. However, we have an opportunity through that economic pact document to bring forward proposals to the Executive on further duties for consideration. We have to do that by autumn 2014. The one cautionary note is the fact that the list of duties that the Government cite as being potentially available for devolution does not include air passenger duty powers at the minute, and that is why Silk's response will be so interesting. They usually more readily devolve land-based taxes to us now rather than some other tools that they know we would use for economic development purposes.

**The Chairperson:** Paul referred to the Newark route and the consequences of the initial policy change on APD. The Enterprise Minister was quite hopeful of a breakthrough for new routes to Canada, but that seems to have gone quiet recently. Has there been any movement there or has it come unstuck?

**Mr Thomson:** No. It is not a silver bullet. Just because APD has changed on band B, it does not mean that we will suddenly have lots of airlines landing here. Oh that it was the case. There is a lot of work involved, and airlines weigh up a lot of factors in deciding where they will fly to. You can ask the airport folks about that when you are talking to them. We also continue to work, where we can, with airlines. The Minister was in Canada two weeks ago and met Air Canada, and we will continue to do what we can to support and encourage airlines to put the case for Northern Ireland and to put the facts and figures. We work with Tourism Ireland on marketing support. A lot goes on behind the scenes but it is, excuse the pun, a long haul to get the new routes in.

**The Chairperson:** Is the work that is taking place on Canada encouraging?

**Mr Thomson:** Yes. The Minister met at least three airlines in the past month and will continue to have meetings.

**Mr Pauley:** In the first seven months of this year, there has been just over a 2% increase in the number of direct long-haul passengers flying from Belfast International Airport compared with the same period last year. Whether that is due to what was a reduction from the band A rate to zero as opposed to the full £60 to zero is difficult to say. In that period, there has also been the reintroduction of flights to Egypt, which had stopped, so that led to a small increase. We are looking at whether passengers numbers are changing, but it is a small increase, which is encouraging, but the numbers are still quite a bit below the 2007 levels. Socio-economic growth is a key driver of passenger numbers to anywhere, particularly internationally.

**Mr Cree:** I sometimes think that we need a reality check. We are becoming used to it. This is a punitive tax that was introduced as an environmental tax and replaced by another tax on the environmental side. Bill made the point that we have to think about the UK as a whole. I am sorry, but I am concerned about Northern Ireland. The UK has the high-speed rail links as an alternative, and there is no APD on that. Paul mentioned the derogation to the Scottish islands, and I believe that we should have got that. We have taken evidence from people in business here who send staff over to various parts of England on a Monday morning and bring them back on a Friday evening with that oncost.

The other big issue is that sometimes we are sitting back and waiting to see what happens, and taking too long to resolve this issue. We almost lost the Newark link by talking about it and becoming aware of it only late. We have a big competitor down the road, which is charging €3 at the moment, or has it gone altogether? It will go altogether. No other part of the UK has a land boundary and does not have that option, so we could lose.

We are talking about a meagre increase. It will be interesting to see the increases in flights out of Dublin, which are quite dramatic because they are only 100 miles down the road. If you take a family going there, you are talking £300 and £400. We need to think about that. That is a big threat to us. Speaking for the UK as a whole, we should be given credit for the problems that we have and because of the competitor that we have on our doorstep. That does not exist anywhere else.

Have we given up totally on the argument for parity with the Scottish islands? Whatever happened to the other EU countries? I remember that the Netherlands and two or three others brought in this tax and then wisely and quickly just dumped it. Were they penalised in any way? How did they manage to do that? Surely that is another argument that we should take up with the British Government.

**Mr Pauley:** As I think I said at the start, the Department's position on the impact of the duty and how it works is unchanged. We do not have anything good to say about it.

**Mr Cree:** You need to keep saying bad things then.

**Mr Pauley:** Absolutely. We view it as damaging across the UK but particularly to other regions and particularly, on top of that, to us without the alternative transport links that other parts of the UK have. So, we are very much in that place and have not changed our view.

Derogation for the Scottish airports was always a population density argument that we could not get close to. I do not think that we will ever get close to the population density —

**Mr Cree:** No, so we need to use another argument then.

**Mr Pauley:** We had to devolve rather than ask the Government for a reduction in air passenger duty to stay within EU state aid rules regarding unfair competition across Europe. The Government surprised us by being prepared to look at fuel duty, with some Scottish islands receiving a small reduction in fuel duty charges because of the high prices there. The Government and Chief Secretary to the Treasury looked at other parts of the UK where fuel prices may have been similar to here to see whether that derogation from fuel duty — not all the duty but about 4p on the pound — could be applied. At times, they quite quickly surprise you, as was discussed earlier, with a willingness to come back and review something that they were set against.

The literature review that we did of the other countries in Europe shows their latest position. The Dutch experience was one example that we looked at. Many countries in Europe charge VAT on air passenger tickets, which the UK and Republic of Ireland do not. There is a pricing mix in what passengers get charged and that can be applied differently, so many European countries seemingly do not raise revenue from air passenger duty but take VAT from those who buy airline tickets.

**Mr Cree:** We are talking about VAT. It is a bit like some people beating their wives — I do not beat mine, but I am not expecting it to be an option in the future either, so I think we have to think on the positive side. *[Laughter.]*

**Mr Weir:** That is the quote of the day.

**Mr Pauley:** I hope there is no question about that. *[Laughter.]*

**The Chairperson:** Bill, there is a reference to the HMRC research that was commissioned. It was published in October last year, which was not even 12 months ago. Why did the Department not piggyback — for want of a better word — on that piece of research, given the benefit that it would have been to us at this point?

**Mr Pauley:** Speaking candidly, first, we did not know it was doing that work for Scotland and Wales. I think HMRC did different work for us, which we forwarded to the Committee, regarding the block grant adjustment, which informed how we finally agreed an amount. It took account, in the eventual cost we reached, of the likely impact on where passengers would fly from if air passenger duty had not been reduced in the way that it was for direct long-haul flights. The Committee can be assured that we will approach HMRC to discuss its analysis with it and see whether it will take some similar analysis for Northern Ireland. We will also point out, though, that the conclusion of its analysis for Scotland and Wales was that it had little impact and that the price changes would be so marginal that there would only be a very small impact regarding the amounts of duty and how that would feed through into the economy. So, the HMRC conclusion was not that it was going to bring dramatic benefits to the wider economy.

**The Chairperson:** When are you going to approach HMRC about that?



**Mr Pauley:** We will approach it as part of the work that we are doing this autumn. Before we can finalise our study, we want to see what HMRC has produced there.

**The Chairperson:** Will you be asking it to commission something similar, if possible?

**Mr Pauley:** We will be looking at that in our work and at how much we want to do that. We certainly need updated estimates from HMRC. We have quoted the £60 million to £90 million figure to you since the 2011 work to devolve the direct long-haul duty, and we have not had that updated as yet. The Office for Budget Responsibility does new projections for both an autumn statement and a Budget. We want a rerun of those data so that, as this work concludes, it is up to date.

**Mr Thomson:** It is an interesting point. That HMRC report, to be honest, is not particularly helpful to argue for APD, because it concludes that the large price changes that it modelled have a relatively small impact on total passenger demand.

**Mr Cree:** That works OK for some situations, but not in the Northern-Ireland-versus-Republic-of-Ireland picture. It is a totally different situation.

**Mr Mitchel McLaughlin:** Those European countries abandoned it because of the very clear evidence that doing so had an immediate economic benefit.

**Mr Pauley:** We accept that having a competitor so close to us that does not impose that charge is having an impact. We know, even in simple terms, that the number of passengers from Northern Ireland flying out of Dublin has increased quite significantly over the past two years. It has almost doubled, I think.

**Mr Mitchel McLaughlin:** They are just mopping up opportunities because there is no competitive advantage here. Where are any routes that are coming along going to end up? You can predict that they are going to end up in Dublin.

**Mr Cree:** That is the unique selling point. That is why we have got to keep labouring that point.

**Mr Pauley:** I think there are also some pricing issues. Some airlines price routes out of Dublin that are also available here differently. Northern Ireland would be on a UK pricing structure for some of the airlines that fly from our airports, whereas people flying from the Republic of Ireland are on an EU pricing structure. UK-owned airlines are seeking to attract passengers to their hub destinations and beyond. So, the pricing structure of airlines, as well as air passenger duty, is different. Both have an impact on the price, but we do not know which is the biggest.

**The Chairperson:** What work has been undertaken on an air route development strategy? That is referenced in paragraphs 75 to 78 of the report. What are other jurisdictions in these islands doing on that?

**Mr Thomson:** There is very little that you can do now under EU rules. Support to airports and airlines is very limited in what can be done. Indeed, the European Commission is out to consultation at the moment, and the way that we read it is that it will tighten up some of the few opportunities that might be there.

**The Chairperson:** What are the few opportunities?

**Mr Thomson:** They are largely to small airports. If I recall correctly, it ranks the airports into bands, and the international airport would be way beyond the limits. Also if I recall correctly, it was talking about some limited aid to small airports with under one million passengers — although I cannot be sure of that number — that might be allowable, but it has to be time bounded. There may be scope for some airline support in the EU on new routes to certain areas that are not served. However, it is so restrictive that it is hard to see how anything that we could do in Northern Ireland could fit into that.

**The Chairperson:** Is the South in a similar position?

**Mr Thomson:** The whole EU is in a similar position. There have been quite a number of —

**The Chairperson:** Does the South have a strategy?

**Mr Thomson:** It does not have an air route development scheme like that at all. Marketing support is really the only thing that we can do, and we do a fair bit with the carriers on marketing support.

**Mr Pauley:** The South was proposing to reduce the rate of air passenger duty from 3% to 0%, but a requirement as part of that was that the airlines would respond with some new routes. That has been held up since the proposal because of EU rules in that area.

**The Chairperson:** Has it been shelved?

**Mr Pauley:** The Government could not link the reduction in the duty to a requirement for new routes. Europe substantially ruled that out.

**Mr Cree:** I think that I could live with €3; I think that that would be all right. We would probably do that ourselves.

**The Chairperson:** Gentlemen, thanks very much.