



BRIEFING – AIR PASSENGER DUTY

Introduction – FSB National Position

The FSB fully appreciates the aviation sector has a role to play in cutting carbon emissions; however, we believe the current APD structure is damaging to the UK's tourism industry. We would like Government to take this opportunity to reform the APD structure in order to give the UK a level playing field with other comparable EU economies.

The benefits of the tourism sector to the UK economy

Tourism was worth £115bn to the UK economy in 2009 – equivalent to 8.9 per cent of UK GDP. Tourism contributes £96.7bn to the economy in Northern Ireland (£1.5bn - 4.9 per cent) in England (8.6 per cent of GDP), £11.1bn in Scotland (10.4 per cent), and £6.2bn in Wales (13.3 per cent)¹.

Over 2.6 million jobs are supported by tourism in the UK - which means that one in twelve jobs is currently either directly or indirectly supported by tourism².

Current APD structure and effect on tourism

In 2002 a study by the World Travel & Tourism Council found that visitors to the UK paid the second highest level of taxation in the world. Since 2002 there have been further increases and a doubling of Air Passenger Duty in 2007.

The FSB's UK position supports proposals to move to a 'per plane' rather than a 'per passenger' basis in order to encourage investment in more fuel efficient aircraft and increase aircraft loads.

When APD was restructured in 2008 the rationale given was to help reduce CO2 emissions, however, with the inclusion of the aviation sector into the European Emissions Trading Scheme in 2011 a strong case can be made for a significant reduction in APD.

It is also important to remember that the UK has a high level of VAT on tourism services compared to other EU nations such as Germany and France as well as an expensive visa regime. When these factors are taken into account along with the negative impact APD can have on inbound tourism we believe the UK tourism sector is put at a competitive disadvantage.

VAT and the visa system are other deterrents that decrease the UK's competitiveness compared to other tourism destinations.

Northern Ireland Analysis – Growing the Economy

As efforts continue to grow the Northern Ireland economy, with a strong focus on international business, APD is a further hamper on efforts to attract new investors. As neighbours in the Republic of Ireland continue to attract large corporations and investors to locate there, they have recognised the need to address this issue as part of a wider package of measures.

¹ 'The Economic Contribution of the Visitor Economy – UK and the nations'. Deloitte.

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

At present there is considerable work being undertaken to rebalance the local economy, with a focus both on encouraging Foreign Direct Investment and growing indigenous enterprise.

Given the competitive position of the Republic of Ireland, and the approach it has taken to reduce air duties, it is vital that this is factored in when defining a way forward for air travel in the United Kingdom, in particular Northern Ireland.

It would send out entirely the wrong message if international travel routes were to be damaged at a time when the Northern Ireland Executive and the business community have united and invested considerable effort in showcasing Northern Ireland as a suitable destination for investment.

With this in mind, the FSB believes that an issue such as this cannot be viewed as a standalone one but must be considered as part of the wider economy consultation process currently underway.

It is vital that as part of this rebalancing process, the issue of developing air access corridors for Northern Ireland is made a priority.

As well as inward investment, the Northern Ireland Executive has placed much emphasis on significant growth in the local tourist industry as a central plank of economic plans. This will be undermined if an additional tax continues to be levied, especially in light of the proactive measures undertaken by the Republic of Ireland Government to bolster their comparatively strong air service network, and which is designed to assist further inward investment and tourism growth.

The Republic of Ireland was charging air passenger duty of 10 Euros per flight but has now cut this to 3 Euros and there are plans to abolish it altogether. ROI has thirteen flights daily with the USA and, as a result, have permanent US Border Agency staff presences who conduct the required border clearances on Irish soil, leading to a smooth, cleared service direct to the USA.

In Northern Ireland there is one flight daily to the USA. It enjoys a good load factor and is in profit but has been significantly impacted by the high UK-derived charge.

Conclusions

The total value of Air Passenger Duty from NI-originating flights is estimated to be around £50 million per year. The plan to eliminate charging in the Republic leaves Northern Ireland in a uniquely difficult situation in UK terms.

As such the FSB supports the need for the Northern Ireland Executive to assume local responsibility for the setting of our own APD levels, through devolution of this matter from London.

This could result in a cut to the Block Grant, however, this would be immediately balanced by the receipt of APD but it would then be up to the Executive to determine if it wanted to alter any of the rates, for example, setting a flat rate for all flights whether domestic or international etc.

Given the importance of the tourism sector to the Northern Ireland economy and its potential to help wider economic growth the FSB believes urgent consideration needs to be given to level the playing field in terms of aviation taxation compared to in particular, the Republic of Ireland.

The ideal solution is for the abolition of this tax, however if this may be a longer term aspiration given current constraints. It is a lesson for those who seek to implement new charges in the future.