



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

**Air Passenger Duty: ABTA, Northern
Ireland Hotels Federation, and Belfast
Visitor and Convention Bureau**

18 April 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Conor Murphy (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mr Leslie Cree
Mr David Hilditch
Mr William Humphrey
Mr Ross Hussey
Mr Paul Maskey
Mr Mitchel McLaughlin
Mr Adrian McQuillan

Witnesses:

Ms Doreen McKenzie	ABTA
Mr Luke Pollard	ABTA
Mr Gerry Lennon	Belfast Visitor and Convention Bureau
Ms Janice Gault	Northern Ireland Hotels Federation

The Chairperson: I welcome Doreen McKenzie, the chairman of the aviation committee of ABTA; Luke Pollard, its head of public affairs; Janice Gault, the chief executive of the Northern Ireland Hotels Federation (NIHF); and Gerry Lennon, the chief executive of the Belfast Visitor and Convention Bureau (BCVB). I am not sure whether all of you want to make opening remarks or whether you have delegated one or two people to do that. You got a flavour of the discussion, which probably strayed into the areas that you will present evidence on. I invite all or any of you to make opening remarks, off the back of which we will have a Committee discussion.

Ms Doreen McKenzie (ABTA): Maybe I will start, because I am the employer, as it were, among the panel. I am the owner of Knock Travel. My business has been trading since April 1990, and we employ 21 local people. I have two retail shops, one in Belfast and the other in Bangor, and a corporate travel department that represents around 70% of my turnover, which is about £5.5 million a year. We provide travel management services for a number of prestigious Northern Ireland firms, including government Departments. We are the leading independently owned travel management company in the Province. The provision of quality, efficient and competitively priced air travel is crucial to our clients. So, aviation is important to my business. Although the majority of our corporate travel is domestic travel to the UK, approximately 20% of it relates to inbound travel to Northern Ireland. I

have over 40 years of travel experience, so I am delighted to be here to help with any questions on any area that I can.

Mr Luke Pollard (ABTA): I represent ABTA from a UK-wide perspective. Most of you have heard of us. We are 60 years old and have about 1,200 members. In Northern Ireland, we have 39 members with 133 retail outlets. ABTA is also part of the industry-wide Fair Tax on Flying coalition, which is a group of airlines, airports, tourism organisations and business groups that are arguing for a better deal on aviation taxation. That deals with not only the overall level of air passenger duty but the structure of how it is classed.

In our submission, which I believe you have, we argue that Northern Ireland should be classed as a special case due to the shared land border with the Republic. We particularly welcome the potential devolution of band B and above to the Assembly. We caution, though, that that represents only 1% of the duty, so we think that a continued push is required on the other 99%. Some of the options available are that we look not only at the further devolution of the duty, which was touched on in the previous session, but at considering what pressure can be brought to bear on Treasury in particular, because this devolution is the first sign of a chink in the Treasury's air passenger duty (APD) armour.

This and the previous Chancellor were firm in saying that there would be no reduction in air passenger duty. Northern Ireland has an opportunity to say that devolution will deliver more jobs, growth, routes; therefore, this is an example for the rest of the United Kingdom to follow in arguing that the Chancellor should look again at our having the highest tax in the world on air travel. That applies more broadly across the UK.

Ms Janice Gault (Northern Ireland Hotels Federation): I work for the Northern Ireland Hotels Federation. As of December last year, there were 135 hotels in the Province, representing about 7,600 hotel bedrooms. Hotel occupancy has remained fairly stagnant over the past year, with a dramatic fall from the peak of 2007-08. Unfortunately, the one thing that we have noticed is that the figure from last year will show a slight drop in the occupancy rate that hotels are achieving. We reckon that the occupancy figure is around 60%, which means that hotel bedrooms are empty 40% of the time. We have had a look at the overall spend, which, based on the mix of traveller that we have had, has gone up. The GB market has remained stagnant for us over the past number of years, while other markets have grown in limited numbers. Last year was the first year that we saw double-digit growth from Europe and what are called other destinations.

We firmly recognise that, if we are going to make the figures that we have been challenged with — £1 billion spend in tourism and 450,000 visitors — we are going to have to change the mix of visitor that we have. To do that, the access model needs to change. Air passenger duty is one way of ensuring that that happens. The airlines gave the example of Etihad in Dublin, and the one market that it scores very well in is Australia, which is a really big market for here.

The other thing is that, although somebody coming might visit family and friends, they are more inclined to stay in hotels and to spend more money. People from other markets spend over £300 a visit, whereas in the local market, they spend only £90 a visit. Our big focus is on changing the mix of tourist visits that we have to Northern Ireland.

Mr Gerry Lennon (Belfast Visitor and Convention Bureau): I will make a couple of points. First, I thank you for the opportunity to discuss this matter with you. Secondly, I will add to Brian's and John's comments congratulating the Executive and Assembly for moving this forward and getting it devolved. Brian made the very important point about our getting our hands on some of the levers that can impact on our economy, and Mitchel, you made the point that at least it is now within our gift to do something about it.

The Belfast Visitor and Convention Bureau is a public-private sector partnership that is focused on marketing Belfast as a city break and conference destination, so air access is very important to us. The context within which I am making these comments is the huge growth in tourism, which we all know about. There has been some 300% growth in the past 10 or 12 years. I know that there has been stagnation in the past couple of years, but I think that there are positive signs. Room sales in 2011 were up 4% on those of 2010, and, to date in the first quarter of 2012 they are up 7%. Indeed,

Belfast Welcome Centre acts only as an indicator, but it deals with about 40% of all inquiries into tourist information centres in Northern Ireland, and it has experienced a 104% increase this quarter. So, the impact of 2012 and of all that is significant.

The issue now is that tourism is so important to us. When preparing for this meeting, I was thinking about what created that, and I suspect that the paradigm shift to political stability, as well as all the investment, have created the growth in the past 10 years. As Janice mentioned, if the targets that are being set are to do something like double tourism revenue, that equates to about 8% growth a year, year on year, for Belfast alone. How are we going to make that step change? I was wondering whether, if political stability were the paradigm shift that kick-started all the growth, dealing with APD is the next big issue to get us on to the next level? An 8% growth year on year is a big thing. Barcelona's tourism grows by 15% year on year, and the tourism rate in other European cities grows by 3% to 5%, so we are being asked to make a significant step change.

Picking up from what I was hearing earlier, I have a few more comments to make. Relying solely on Dublin as our main access point will not achieve that growth. We used to talk about three-day conferences, but the trends show that they are now down to two or two-and-a-half days. Short breaks are also getting shorter. People need to get to their destination quicker, so we need our own access. Indeed, 72% of all overseas visitors to Northern Ireland came here directly, and 65% of them flew, so we need to protect that. I heard Brian — or it may have been John — say that the APD is one initiative, but, now that we have it, what do we do? For long-haul flights, surely Canada would be the first market that we would want to get direct access to because of the strength of the visiting friends and relatives (VFR) rate. How do we then deal with the APD on short-haul flights? There is a big debate there. If APD on short-haul flights is removed, will that project us into those growth figures that we talked about? If that is not feasible, we must have the constant and consistent investment that we have had in 2012 in events and marketing. We have just shown the impact that that can have on the ground, so that has to continue as we go forward.

The Chairperson: You are all operating in your own areas of interest. You can touch on the events or the general atmosphere that will increase tourism. Obviously, you see the importance of access. Is there any way that you can think of to gather evidence to show what the direct impact of a reduction or removal of APD would be on the number and type of visitors that might come and on the length of time that they might stay? Has any of that research been undertaken?

Luke, from your broader perspective, do you have any knowledge of the question that Mitchel raised about Scotland and the exemption that the Highlands and Islands enjoy? Is it the Scottish Government's intent to subsume that into a devolution of the APD power for themselves?

That is a broad question about whether any attempt has been made to gather evidence on this specific issue and how it might impact on tourism, travel and the businesses that you are involved with, and there is the specific question concerning to Scotland to consider. Do you want to deal with that first, Luke?

Mr Pollard: I am very happy to start with that. For a long time there has been a huge emotional argument about air passenger duty. People are passionate about it and are very protective about their holiday arrangements. Ours being the highest tax in the world has created an emotional argument. That is partly hidden, in that there has not been as much of a statistical basis as we need for some of these things.

The anecdotal evidence is there, and the evidence base that industry and business groups alike are forming is very powerful. The large scheduled carriers — Virgin, British Airways and a few others — are undertaking a large piece of work that is looking at the economic impact of a reduction and a pause in the rate of air passenger duty. They are using the Treasury's general equilibrium model. That is the modelling device that it uses to model the entire economy, rather than just one particular sector of it. There is a fair amount of evidence that looks at the individual reports that Oxera and Oxford Economics have made. There is a wide range of those, and they look at the impact of air passenger duty on tourism in particular. The figures that everyone talked made a powerful contribution. However, that needs to be applied across the economy, because that is certainly where the Treasury takes its modelling from. That will come out later in the year, and I will be very happy to share with the

Committee any results that come out of it. The World Travel and Tourism Council (WTTTC) research that was cited earlier about the 91,000 jobs is also an informed contribution to this.

The general sense that is coming through, certainly in discussions with the Treasury on the matter, is that lots of organisations are arguing for sector-specific tax cuts, with the promise of jam tomorrow. That is something that the Treasury receives an awful lot of. The difference between some other sector-specific tax concerns and air passenger duty is that air passenger duty is not just a tax on tourism — although it is — it is a tax on the wider economy. If you are looking to grow the economy more broadly, and especially to pick up the Government's objective of rebalancing the economy — especially in Northern Ireland — away from the larger public sector spend towards commercial and private sector spend, taxing the drivers for growth would seem to be a perverse way of achieving that growth. So, there is research, and more is coming on line. We certainly believe that this generates not only an opportunity for more people to take a holiday in general — which we feel is good, and there are all the different types of tourism, all of which contribute to the economy — but provides an opportunity for business travel and an increase in foreign direct investment. We feel that that is especially important for Northern Ireland's intra-economic growth.

It is not entirely clear where the issue with Scotland sits. There is still some disagreement between the Scottish Government and Westminster over the extent to which air passenger duty will be devolved, if at all, and therefore what shape it will take. We are certainly encouraged that the Scottish Government are keeping the pressure on Westminster for a changed approach to air passenger duty. From an ABTA perspective, although we see Northern Ireland as a special case because of the shared land border, we favour a single rate for the rest of Great Britain simply because, if there were a devolution in Scotland, it would create the same problems that we are trying to resolve here between, say, Newcastle and Glasgow or Edinburgh. That would create consumer confusion.

Within that, there is huge potential for providing clarity to consumers. If you stood outside the departure gate at any airport and asked people how much tax they were paying, it would be challenging to find someone who could give you the right answer. When consumers find out how much tax they are paying, that generates considerable anger, especially when you look at flights in band B and above, where a considerable amount of money can be involved. So, a situation where a high-tax regime is against a low-tax regime that is only an hour-and-a-bit away, a real economic disincentive to act is created. If it is useful, I will be happy to share some of those research reports with the Committee.

The Chairperson: Briefly, we earlier discussed the idea that the emissions tax would perhaps subsume or overtake air passenger duty. From your industry's perspective, do you think that that is likely, or is APD here to stay for the foreseeable future and be destined to revert to being a green tax, as originally intended?

Mr Pollard: That is a good question. The rationale for air passenger duty has changed over time, depending on political circumstances. It was originally an economic tax, then a green tax and then vice versa. The coalition Government has made it quite clear that APD is a revenue-raising tax alone, and they regard the environmental costs being paid for by the emissions trading scheme.

Aviation entered the emissions trading scheme on 1 January, so those costs are built into ticket prices from now on, effectively. The UK is refusing to offset the income from the emissions trading scheme (EST) against the total income from air passenger duty. To put that in context, air passenger duty is due to net around £3 billion-ish, rising to £3.6 billion by 2015-16. Emissions trading revenue is in the low hundreds of millions of pounds, although it is a very odd concept that such an amount is not a lot of money. Therefore, if there is one, the opportunity to offset is now, before that revenue pot becomes too big for the Government to do so. Other European states are looking at offsetting their income, because they think that that is the right way of doing it.

ETS is a harder tax for consumers to understand. It will not be a certain level for each ticket, for instance, as it will depend on which carrier you fly with and the carrier's economic and environmental models and how much of the scheme's cost it wishes to pass on to consumers. So, it is much more of a stealth tax. However, the industry supports the emissions trading scheme, so when we call for a fairer tax on flying, we are, in effect, calling for the scheme's revenues to be offset against APD and for emissions trading to ultimately be the main form of aviation taxation.

Mr Humphrey: Thank you all very much for your attendance and for your presentations. You heard what Brian Ambrose said in the previous session about the cost of relaxing APD being between £50 million and £60 million. I cannot remember who, but one of the previous witnesses mentioned that a business case is required before government will implement anything. Work needs to be done on the issue of the financial and opportunity costs of not relaxing APD. That will be key to the whole thing. Brian talked about APD being one of the factors. Obviously, the economic downturn is another factor, probably the most significant, in the reduction in the number of visitors coming here. We hope that that is beginning to improve, and I am encouraged by what we heard from Gerry Lennon about some growth in the figures. At this point, I will declare an interest as a director of the Belfast Visitor and Convention Bureau.

I am grateful that you, as representatives from the private sector are here, and I am interested in your view on my honest opinion, which is that, in all this, we cannot look at this issue in isolation through tourism. In Northern Ireland, one of the problems is that tourism cuts across five or six Departments. Therefore, trying to get a joined-up approach is difficult. Figures over the past 15 years indicate that we have made great strides as a tourism destination in increasing the number of visitors who come, particularly for weekend breaks. The challenge is to get people to stay here for longer than a weekend or a couple of days, given the size of the place. Transportation has been an issue. Hotels have been an issue, but that is improving all the time, as we heard from Janice Gault. Other infrastructure, such as bars and restaurants, have been an issue, as has opening hours — whether on a Sunday or at night — and what to do on a Sunday. Does the private sector agree that we need to look at Northern Ireland plc tourism as an entity and solely at what is best for tourism in Northern Ireland? What are your views on how we can best do that? APD is only one factor. It is key in what we are talking about this morning, but from the private sector viewpoint, there must be other factors.

Ms McKenzie: Yes, I think that you are right. No one Department takes responsibility for travel and tourism, so it kind of gets lost in the mix a bit. I am probably in a lucky position, because I have two sets of the house: corporate travel and leisure travel. The leisure market here is quite buoyant in that people are taking their annual two-week holiday and maybe four or five weekend breaks to European destinations. When we had a speedy growth of no-frills airlines, there were cheap fares to European cities. So, there has been a trend over the past 10 years where people think, "I like my Friday to Sunday weekend break.". That is why we have been getting people starting to come to Northern Ireland; they have thought about just going away for a weekend. However, if we get people here for a weekend and they really enjoy it, they will start to get the confidence to come back, so they will start to go out to rural areas and will start to stay longer. That will require a building process.

In the past year, we have seen a definite increase in spend on our leisure market, which is up about 15% for this year. Spend on our business side is staying level with that of last year. Due to the government Department travel that I deal with, I have felt the effect of budgets being cut back. I know that agents who deal with some private sector accounts are starting to see some growth from people from businesses here going out to other parts of the world to try to bring back business into Northern Ireland. So, there is a whole mix of issues; it is not just about the leisure traveller.

Mr Humphrey: Conference tourism is one of the key things, with representatives of businesses travelling from all over the world, and Belfast is obviously one such destination. The reason that I mention all this is that APD in isolation cannot be the only solution. Hotels have been a problem, and that is being addressed, but there is an issue with conference venues, for example. Dublin has a brand new conference centre that can seat and feed 1,000 delegates. Northern Ireland does not have that, which is obviously why the council in Belfast has taken a decision on the Waterfront Hall.

All I am saying is that everything needs to be joined up: the venue is key, as is the APD and its effect on the number of direct routes that are coming into the city. How many of us have gone to places in Europe, stood at the airport when we are coming home and noticed that everybody getting the flight is from Northern Ireland? There are not enough people from Rome, Paris or wherever it is travelling here on our return flight. So, I think that all that needs to be joined up, and I would like to see greater focus on getting it all meshed together.

Mr Pollard: A lot of work needs to be done on inbound tourism in general. Part of the problem is that the UK generally is not attracting as many inbound tourists as our European competitors. For example, seven times more Indian tourists visit France than visit the UK each year, and six times more Chinese tourists visit Germany than visit the UK. We are falling behind in where the increase in tourism spend is coming from, which, by and large, is BRIC countries, that is, Brazil, Russia, India and China.

That is partly due to air passenger duty. It is considerably cheaper to fly to our European competitors than to fly to the United Kingdom, and air passenger duty is part of that. However, there is also the added complication of aviation capacity, so there are not necessarily the routes to fly on. That is an advantage that Dublin Airport has over Belfast airports, and it is due to the connectivity that it has with Middle Eastern hubs and other European hubs. You also have the costs of visas, with a UK visa costing considerably more than a Schengen visa for international tourists. That visa gives access to 26 member states around Europe. So, as there is a common visa arrangement between the Republic and the UK, and the cost of visas means that people may suffer.

When you combine all those factors, you are right to say that APD is not a silver bullet. However, it can provide an economic incentive for people to look again at visiting this part of the world.

Mr Lennon: APD is a portal into the bigger issue of how to eat the elephant. When we first started out, we coined a phrase that image and access were our two big issues in the city, in that neither was good. Image has been addressed with the political process and the Titanic, and the PR that we as a Province and country have around the world is the fantastic. Access is not the problem child that it was. However, if we are to grow the numbers that we are talking about, we cannot rely on the Republic of Ireland and domestic markets. We have to grow significantly overseas. The question is whether we have enough access from overseas. Janice is right about our two big source markets and that our European market has shown the fastest growth, with rates at 19% from France and Barcelona. What else do we have? 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. Whether we exploit it and go and get that access is the issue. Taking the APD away will not solve the problem. You then have to take action and go and do it. The same applies to short-haul flights. This is outside BVCB's gift, but if we are to significantly grow tourism, we need more access to Europe, which is going to be our growth market in the next 10 years.

Ms Gault: There also needs to be an understanding of what tourism actually is. In the world of tourism, I often feel a bit like Cinderella. I am not often asked to the ball, but, hopefully, I will get the prince at the end. People think that tourism is a stand-alone industry. However, when you look at the figures, you will see that it creates and affects 123 other sectors, including those that are involved in activities from buying a newspaper to food service. We are very strong on that. So, tourism affects every single aspect of business in Northern Ireland. The secret for us is to create an environment in which business flourishes.

One of the issues is that tourism is split out. Based on recent statistics, we know that about half a million people who are purely holidaymakers come here. If you look to the Irish Republic, you will see that they have more than 10 times that amount. Therefore, the secret for us is to double that figure or change it around. In pure financial terms, for every million pounds that comes in through tourism, 20% goes directly back in VAT. We wish that it was 9% as it is the Irish Republic, but that is another argument.

At the end of the day, there is a real benefit here for everybody. Tourism is often seen as a thing that is stuck out to the side. Even when DETI was looking at its new Programme for Government contributions, it referred to science, technology, engineering and mathematics (STEM) industries. The "T" does not stand for tourism; it stands for technology. Hotels have about a £100 million wage bill every year, and the more occupancy they have, the more rooms they need cleaned, the more people they can employ, and the more money they put back into the local economy.

I would argue that, for the first time, and certainly in my lifetime, the Province has appeared on every newsreel throughout the world for the past three weeks for all the right reasons. We have to build on that. There were loads of Chinese tourists in town over the past couple of weeks, and the reason why

they were here is that they wanted to tell their friends that they have been to Titanic Belfast. That is a market that we really need to chase.

We can fool ourselves in lots of different ways, but we currently have half a million pure visitors coming here. Every time that number increases, each visit will add an additional £300, £400 or £500 to the local economy. It is great to see that the domestic market here is very strong and that people are spending their money locally. Make no mistake about it: without them, the hotels in Northern Ireland would not be open. We do not have the luxury of being a resort hotel or a hotel that concentrates on one type of business. You can do every sort of business, a bit like Doreen, and look at the local wedding, the local funeral, conferences, dinners, tourists, but tourism needs to be set in context. When I go out to look at something, I have to go to 14 different Departments and government bodies to get an answer. There is no joined-up thinking about your arrival in Belfast and how you are going to get to Derry or to the Giant's Causeway. When you arrive in other cities, facing those things is a much easier prospect. We have to understand that tourism is not something that stands alone. It crosses every single Department and every single aspect of society in Northern Ireland.

Mr McLaughlin: This is a slightly different point, although I thought that that was a powerful statement. I think that we clearly need to invest much more time in planning how we are going to maximise that impact.

The point that I wanted to make, which is peripheral to the strong point that you just developed, Janice, is that it will be very interesting to see the figures for Dublin Airport — in retrospect, of course — in the context of Titanic. I am thinking of all the people in your industry who are out promoting attractions in this region. The access for them has to be through Dublin. Dublin Airport must be rubbing its hands. We are really marketing for Dublin Airport, in many circumstances, because we do not have the access routes. If we succeed in catching their interest and commit them to coming here, they have to come through Dublin Airport and then make their way here. So, it would be interesting to see those figures, because I anticipate that they will demonstrate that it had a very good year indeed, possibly at our expense.

Ms Gault: You are helping not only Dublin Airport but the businesses. At the moment, if you do not have direct access to a location, you can effectively arrive in Dublin, come to Titanic and get out of here in under 12 hours. It is a bit like the golden half hour. If you arrive within half an hour of your destination, you are going to stay there. I have spent the past six months trying to convince tour operators to get people to spend an extra night in the Province. They can effectively now land in Dublin, get up to the Giant's Causeway and get out again. We have said to them that, now that the Titanic exhibitions are attractions, they are going to have to stay a night. If you have 100,000 tourists coming every year and they have to stay here, a huge new environment is created. Once you have people here, the secret is to get them to stay, which they will. People will say, "There are three things for me to see. Next year, there will be the City of Culture, Titanic, the Giant's Causeway and something else.". So, the secret is to get people to stay. Dublin Airport is failed beyond skinny in that it has the ability to do that. It has taken risks that we were not in a position to take. The Etihad route has been hugely profitable for it, because it has accessed new markets. It has a direct flight from Australia. It is going to go on something like a 214-bound one-way flight to Australia. From our point of view, it is a bit of a no-brainer.

Mr McLaughlin: I am thinking of people working on our behalf in the likes of Canada. They market it, they do their job, and they succeed, but where do people arrive?

Ms Gault: They arrive in Dublin.

Mr McLaughlin: They have to come into Dublin.

Ms McKenzie: They have such a range of choice. I was looking at the choice of destination that you have from Dublin as opposed to from Belfast. Dublin serves 23 airports in the UK, 100 airports in Europe and 10 airports in North America, which is Canada and America. There are 10 flights a week to Abu Dhabi and a daily service to Dubai, and it is sustaining that, so it would be great if we could even get a quarter of that.

Mr McLaughlin: Or at least get started.

The Chairperson: Does anyone else wish to raise any issues? OK, thank you very much for that. Luke mentioned a number of pieces of research that are available, or perhaps will be. Again, if you could forward anything that you think is relevant to the Committee, it would help us in our deliberations. Thank you very much for your evidence. It has been very helpful.