



Ulster Unionist Party response to
Consultation paper Air Passenger Duty

The Ulster Unionist Party

The Ulster Unionist Party is Northern Ireland's oldest Unionist Party, tracing its roots back to the late 19th Century and first constituted in Belfast in 1905. We are responsible for securing the foundation of the state, nurturing its development, and ending conflict by negotiating the Belfast Agreement that brought the beginnings of peace in 1998.

Background to Air Passenger Duty (APD)

APD is the Departure Tax charged for all passengers flying from UK Airports, and was introduced by the UK Government in November 1994. Such a tax is common practice throughout the European Union; however, the UK's current charges are the highest in the Union, and from a consumer's viewpoint, compare very unfavourably with Northern Ireland's nearest neighbour, the Republic of Ireland, which operates a departure tax called Air Travel Tax (ATT). The current APD and ATT charges are as follows:

| APD Band | Reduced Rate (lowest class of travel) | Standard Rate | Republic of Ireland Equivalent (ATT) |
|-----------------------|---------------------------------------|---------------|--------------------------------------|
| A (0 - 2000 miles) | £12 | £ 24 | €3 |
| B (2001 – 4000 miles) | £60 | £120 | €3 |
| C (4001 – 6000 miles) | £75 | £150 | €3 |
| D (6000+ miles) | £85 | £170 | €3 |

Two further notes:

1. The Irish Coalition Government's Programme for Government has indicated the intention to abolish the ATT;
2. One region of the UK, the Scottish Highlands and Islands has a derogation from APD, which is not chargeable on flights seating fewer than twenty passengers or with a take-off weight of less than ten tonnes.

Summary

No other constituent nation of the United Kingdom is as reliant on air transportation as Northern Ireland;

No other constituent nation of the United Kingdom has a land border with another EU member;

The same arguments that are used to promote allowing the NI Assembly the power to vary Corporation Tax hold for APD. This is not, however, a compelling argument for devolving APD, rather an argument for action;

A more synchronous APD / ATT rate with the Republic of Ireland will promote the (i) local aviation sector (ii) the economy and; (iii) a recognition of the diversity of the nations and regions of the United Kingdom;

An end to the current disadvantageous regime will stem the haemorrhaging of lost income to HM Treasury from the passengers deserting Northern Ireland's airports in favour of the Republic of Ireland.

The NI Aviation Sector

The first point to note is that Northern Ireland is more reliant than any other region or nation of the United Kingdom on air transportation, for social, business and emotional reasons. This results in aviation playing a key role in several distinct but inter-related strategies: transportation, tourism and the economy.

Regarding transportation, there is a clear lack of, and need for, an Aviation Strategy for Northern Ireland.

We have three airports, Belfast International, Belfast City and City of Derry, which together represent an infrastructure with more than sufficient potential to serve the needs of a population of approximately 1.7 million people. The issue, therefore, is not infrastructure, but how best to utilise that infrastructure to the maximum benefit of the country and its economy.

While accepting aviation remains a reserved matter for the UK Parliament, the Ulster Unionist Party points to the Department of Transport's document, *The Future of Air Transportation* (December 2003), as evidence of the lack of a robust strategic vision for Northern Ireland. We refer in particular to 7.3

"How to address this cross-border "leakage" was one of a number of issues raised by the consultation document ..."

It is clear that the significant differential between the United Kingdom's APD and the Republic of Ireland's ATT has done nothing to address the "leakage" problem; rather the problem has been accentuated, not only by the differential, but two other key factors: (i) the greater range of destinations offered in the Republic, particularly by Dublin Airport; and (ii) the improved road links between Belfast and Dublin, which have dramatically shortened the journey times between the two capital cities.

We acknowledge the setting up of a route development fund, as mentioned in the 2003 report, and promoted by the Strategic Development Board. However, reviewing its success in 2011, we cannot but conclude that APD is a major inhibitor to route development.

Currently, Northern Ireland has but one direct service to North America, a service whose future is subject to continual speculation, in the context of the APD/ATT differential.

The country is distinctly lacking in route provision to other key economic, never mind holiday, destinations, including North America, northern Europe, Germany, South Africa, and the Middle East.

After limited but welcome success, the fear is that route development will be reversed, should the current North America service (Continental Airlines to Newark) fail. Further, it could be anticipated that such a failure by an international airline brand would adversely impact on attract other international players to Northern Ireland.

APD & Northern Ireland's Economic Strategy

In its 2007 Programme for Government, the Northern Ireland Executive put the economy at the heart of its actions. The long-term aim of the NI Assembly's economic strategy is to re-balance the economy by ending its over-reliance on the public sector, by growing the private sector, primarily through promoting exports.

Equally, as the Treasury's consultation paper on Reform of Air Passenger Duty makes clear *"the Government's overriding objective is economic growth."*

The Ulster Unionist Party believes it is not the role of politicians to create jobs; that role belongs to business people. The role of the politician is to create the circumstances and environment in which business people can create the jobs that generate the wealth that funds excellent public services.

The Treasury consultation document acknowledges that such an environment must include appropriate provision regarding air transportation arrangements: *"Good air connectivity is often cited as an important factor in business location decisions."* (Treasury paper, P12)

In this context, APD is clearly an inhibitor, not a facilitator of private sector growth, negatively impacting on Northern Ireland's ability to offer physical connectivity to key business markets, advance the potential of our tourism offer, and offer our citizens equal accessibility to air transportation, even though Northern Ireland is more reliant on this sector than any other region or nation of the UK.

The Argument for Tax Varying Powers

With the exception of the Regional Rate, the NI Assembly has no power to vary the rate of existing taxes. A prolonged debate on the desirability of allowing the Assembly to vary the rate of Corporation Tax appears to be nearing its conclusion, with the likelihood that the UK Parliament will legislate to allow the NI Assembly to take that power;

The two key arguments in favour of this move are (i) the legacy of the Troubles in Northern Ireland; (ii) the land border with the Republic of Ireland.

The same two arguments of the legacy of the Troubles and the land border are equally valid when considering the desirability of bringing Northern Ireland's APD into line with the equivalent tax in the Republic of Ireland.

To offer some context to the issue of the land border, and how it is different from the rest of the UK, we offer this comparison:

A family of four flying Belfast to Newark will pay £240 in APD

The same family flying Dublin to Newark will pay €12, although this charge will cease in the foreseeable future

To save the £240 APD, the family can travel by express luxury coach from Belfast to Dublin Airport for £19.15 each return. The journey time is approximately two hours, and the net saving (excluding the obsolescent ATT) is £163.40.

It is not possible to travel by coach for two hours from any Great Britain airport and achieve such savings. Indeed, the coach journey from London Heathrow to London Gatwick, which National Express estimates at around one hour, would cost a family of four £160 return; such are the regional variations within the United Kingdom.

The above example must be viewed with the context of the consultation on APD; the consultation paper makes clear that the scope of the process has this aim: *"to simplify APD in a way that improves the efficiency and fairness of the tax."* Clearly, there is an unfairness to its application within Northern Ireland.

Answers to Consultation Questions

6.2 (a) The Ulster Unionist Party recognises the anomaly of exempting 'business jets' and approves of the extension of APD to this class;

6.2 (b) Neither option for reform of APD banding is appropriate for Northern Ireland's airports, or the broader needs of the regional economy. We propose instead that Northern Ireland should be granted a Band A rate (currently £12 for economy class / Reduced rate) to cover Bands A & B;

6.2 (c) This is not an area of particular concern;

6.2 (d) As demonstrated above, the application of the current Band B charges represent a disproportionate tax in the context of Northern Ireland sharing a land border with the Republic of Ireland, where the equivalent tax is currently low, and likely to be abolished in the near future. The impact is to endanger the one existing Transatlantic route; the loss of the existing would likely prove to be a huge disincentive to any carriers currently considering investing in a service in Northern Ireland; it inhibits the drive to secure additional air connectivity, which the Treasury recognises as important to business location decisions; it drives tourists away from NI's airports to Dublin, with the consequent loss of revenue to HM Treasury;

6.2 (e) Given the urgent need to address the inequity of Band B APD as it impacts on Northern Ireland, and in the context of the on-going debate on devolving Corporation Tax to the Northern Ireland Assembly, the Ulster Unionist Party believes that any debate on devolving APD should take place within the wider context of a discussion on what a NI-wide economic Enterprise Zone might look like.

Conclusion

A phrase in common usage by Northern Ireland's political leaders, as they attempt to encourage Foreign Direct Investment (FDI) is this: "Northern Ireland is open for business."

There are many challenges to this statement, including some beyond the control of either the NI Assembly or indeed the UK Government, chiefly global economic developments.

One of the actions within the control of the UK Government is taxation. It appears the debate about allowing the NI Assembly to set a regional Corporation Tax rate is being resolved in favour of devolving that authority, with the key arguments being (i) the legacy of the Troubles and (ii) the land border with the Republic of Ireland. The same arguments are equally valid regarding APD and its negative impact on the aviation sector, and consequent implications for the NI economy.

That said, the Ulster Unionist Party is conscious of the potential implications for the Block Grant of the Northern Ireland Executive lowering CT to a level at or near that applying in the Republic of Ireland (current estimates vary from between £200 and £400 million per annum).

While there is a cogent argument for granting the Executive the power to vary APD, it would also have a negative impact on the Block Grant; one report suggests the total APD take by HM Treasury from Northern Ireland is £45 million per annum.

By contrast, the real damage to economic and tourism growth lies in the Band B application, which the same research suggests accounts for £1.5 to £2 million of tax per annum. On that basis, a significant hit to the Block Grant appears disproportionate, when a simpler and quicker fix might be for HM Treasury to allow Northern Ireland's airports to apply Band A rates (currently for distances between 0 – 2000 miles) to Band B flights (2001 – 4000 miles). This would have the effect of making the coach transfer to Dublin for the family of four more expensive than paying the APD for a direct transatlantic flight from Belfast International Airport (£76:60 versus £48 respectively).

Allowing a second derogation in APD (in addition to the current concession referenced above for the Scottish Highlands and Islands) would acknowledge the social and economic injustice of its impact in Northern Ireland, and serve to celebrate the diversity of the United Kingdom, without a major fiscal implication for HM Treasury's overall tax take.

We call, therefore, for a concessionary Band B APD rate for Northern Ireland's airports, at the same level as Band A (currently £12 per passenger per outward journey). It is impossible to calculate the cost of this move to the Treasury, not least because you cannot measure how many people who currently fly from Dublin Airport and do not pay any APD to Treasury will feel incentivised to fly from Belfast and start paying APD. Looking purely at the estimated £1.5 to £2 million in Band B tax currently raised, a cut to Band A would represent a lower tax take in the order of £1.2 to £1.6 million. While the Party does not under-estimate this figure, we place it in the context of the much larger sums of public money devoted to attracting Foreign Direct Investment (FDI) and the acknowledged disadvantage of the lack of air connectivity from Northern Ireland's airports.

The Ulster Unionist Party is as passionate about the Union as it was 105 years ago. Addressing the inequity of APD in the Northern Ireland context will serve to strengthen the Northern Ireland economy, and by extension, our ability to contribute to the future prosperity of the United Kingdom.

Signed,

A handwritten signature in blue ink that reads "Mike Nesbitt". The signature is written in a cursive style with a horizontal line underneath the name.

Mike Nesbitt MLA

Ulster Unionist Enterprise, Trade and Investment spokesman.