

a fair tax on flying

5th June 2018

Response to call for evidence: From “A Fair Tax on Flying”

VAT, Air Passenger Duty and tourism in Northern Ireland

Dear Rt Hon Philip Hammond MP,

We are writing to you in response to your call for evidence for ‘VAT, Air Passenger Duty and tourism in Northern Ireland’ on behalf of the A Fair Tax on Flying (AFTOF) campaign. The campaign was established in 2011 and is calling for at least a 50% reduction in Air Passenger Duty (APD) across the UK. We are principally supported by the trade associations ABTA, Airlines UK, the Board of Airline Representatives (BAR UK), and the Airport Operators Association (AOA) and the International Air Transport Association (IATA). We also have the strong support of many regional chambers of commerce, the Institute of Directors, the CBI, and a large number of Parliamentarians from both Houses of Parliament. For a full list of our supporters please see Annex A and for a list of Parliamentary and business supporters see Annex B.

AFTOF is submitting this response because it believes that a cut in APD across the UK as a whole will benefit the UK tourism industry and wider economy, particularly as we approach Brexit and work towards strengthening the UK’s international trading links, through increased connectivity in turn leading to greater trade, growth in the tourism and aviation sectors, new jobs. All of which benefits consumer and business passengers in the form of lower air fares and greater choice.

Should you wish to discuss this with us further please contact us through paul@tendoconsulting.co.uk.

Background

‘The aviation sector is central to building a truly global and connected Britain’

– HM Government, July 2017¹

A truly global and connected Britain depends on creating the right market conditions for businesses to thrive. But the impact of APD is an overwhelming barrier to establishing a truly global and connected Britain. In summary APD is a barrier to global connectivity because:

The high rate of APD on flights makes flying more expensive from UK airports, higher prices stifle consumer demand and make trading overseas more expensive and inward investment less attractive. For airlines, the suppression of demand means that economies of scale cannot be enjoyed, nor can the advantages of a competitive market be sought. UK citizens are disadvantaged by limited connectivity as airlines choose other European markets and regional airports struggle to grow. The UK faces a competitive disadvantage on the global stage.

For Northern Ireland in particular, due to its geographical isolation, APD is an even bigger barrier to connectivity and clearly a material factor in the performance of Northern Ireland’s tourism industry and economy. There is compelling evidence that Northern Ireland’s tourism industry is missing out on significant levels of business and jobs because the region’s airports find it increasingly difficult to

¹HM Government, ‘Beyond the horizon: The future of UK aviation’, July 2017

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obtain crucial new routes. With two million passengers travelling to Northern Ireland via Dublin Airport, the UK's aviation tax regime places Northern Ireland at a disadvantage given its land border with the Republic of Ireland. Northern Ireland's tourism sector has been growing in recent years but is still comparatively small compared with its neighbour the Republic of Ireland and mainland Great Britain. Ireland's population is 3 times greater than Northern Ireland's, but in 2016 Ireland's tourism revenue was 8 times greater². Beyond tourism, APD makes Northern Ireland less attractive for Foreign Direct Investment (FDI) and inward investment and this must be rectified.

We ask that, using the evidence submitted in this response, that HM Treasury look into the impact of APD on the UK as a whole and not simply its impact on Northern Ireland. As our answers establish, there are regional connectivity problems across the UK, and whilst Northern Ireland is geographically isolated, many of the negative impacts of APD are just as prevalent throughout the UK. We believe the whole of the UK should benefit from changes to APD, because of the advantages it would bring to the tourism industry, aviation sector, consumers, business passengers and the UK economy as a whole. A cut in APD would be particularly welcomed as the UK heads towards leaving the EU and looks to strengthen its existing trading relationships and develop new ones. Therefore, we recommend that a further consultation should look at the impact of APD in the UK as a whole..

Question 1: What evidence is there that demonstrates the impact of VAT and APD on the tourism sector?

Northern Ireland's limited connectivity to Europe and beyond demonstrates the impact of APD on the tourism sector. Operating out of countries with air travel taxes means that routes carry more risk for airlines and introducing routes is more challenging. APD means there is little to no flexibility on commercial risks, particularly at regional airports, for airlines who want to start 'thin' routes to new destinations. Without demand from passengers and carriers Northern Irish airports have struggled to add significant amounts of capacity and subsequent economies of scale to increase competitiveness and lower prices. Passengers are unlikely to want to accept higher prices and limited choice of destinations when they have viable cheaper alternative airports to fly from nearby. Hence a vicious cycle of slow growth, particularly in the face of passengers having the highly competitive choice of Dublin Airport across the border when air transport is so vital in Northern Ireland. Northern Ireland's airports are thus very limited in their ability to attract carriers to operate out of the airport with such a burden of added cost.

Evidence of this can be seen by looking at connectivity, comparing that of Belfast's two major airports with Dublin, which has no equivalent tax. In a comparison of European destinations, Dublin flies to a total of 134 airports (including airports within Ireland and the UK) compared to Belfast's two airports, which fly to 62 European airports (including airports within Ireland and the UK). This has left Belfast at a competitive disadvantage, whilst lacking crucial connectivity. Northern Ireland will continue to struggle to realise its full potential in attracting inbound tourism, boosting outbound tourism and growing its export markets. The Northern Irish economy and consumers are losing out. The full list of airports flown to can be found in Annex C.

² Tourism Ireland, 'Overseas Tourism and Tourism Ireland Key Facts', <https://www.tourismireland.com/Research/Overseas-Tourism-and-Tourism-Ireland-Key-Facts>

Question 2: What evidence is there that cost is a significant factor to tourists considering visiting Northern Ireland?

Dublin Airport Authority published figures that showed that in 2015 over 1.2 million Northern Ireland residents used their airport for air travel. This increased by 37% in the one year since Ireland abolished its own equivalent tax.³

Around half of Northern Ireland residents used Dublin Airport to reach their holiday destinations in 2015, with 11% using it for business travel and 20% using it to visit friends or relatives. Significantly, London Heathrow was the most popular destination for Northern Ireland residents traveling via Dublin⁴. Furthermore, in 2015 around 800,000 inbound tourists flew into Dublin and then went on to visit Northern Ireland. We believe that the higher costs of flights and the limited range of routes, though not the only ones, are significant factors in passengers choosing Dublin over Belfast. The lack of choice for tourists means that Northern Ireland is not fulfilling its potential in attracting inbound tourists, nor is it reaching its potential with regards to its outbound tourists. Northern Ireland's airports should be the first choice for its citizens who want to fly within the UK, instead they are travelling across the border. Northern Ireland should be looking to capture these outbound and inbound tourists through their own airports to capitalise on the economic benefits they bring to Northern Ireland, such as job creation and tax revenue as well as spending in restaurants, shops, cafes, transportation and hotels. It is clear that passengers are voting with their feet and choosing alternative airports to Northern Ireland. Cost and connectivity are two major factors in Northern Ireland's passenger drain.

Northern Ireland has huge potential to increase both inbound and outbound tourists, which could be achieved if APD was cut or abolished, allowing consumers to benefit from lower prices and a greater choice of new routes. We believe such an effect would similarly be seen on a larger scale throughout the UK if APD was cut nationwide. We also urge the Government to consider the impact of any cuts on the whole of the UK which is losing out to other European cities because of the additional cost burden of APD.

Question 3: Are there additional challenges, unique to the tourism industry in Northern Ireland, which might be addressed through VAT and APD changes?

Dublin airport has seen 10 times the growth of the three largest airports in Northern Ireland as a consequence of abolishing their air tax and letting passengers and carriers know that they were open for business.

As put by the Northern Ireland Affairs Select Committee (NIAC) in their report, **Promoting the tourism industry in Northern Ireland through the tax system**, "Air Passenger Duty is clearly a

³ Dublin Airport, 'Dublin Airport Grows NI Resident Business by 37% in 2015'
<https://www.dublinairport.com/latest-news/detail/dublin-airport-grows-ni-resident-business-by-37-in-2015>, 6 October 2016

⁴ Dublin Airport, 'Dublin Airport Grows NI Resident Business by 37% in 2015'
<https://www.dublinairport.com/latest-news/detail/dublin-airport-grows-ni-resident-business-by-37-in-2015>, 6 October 2016

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material factor in the comparative underperformance of Northern Ireland. There is compelling evidence that Northern Ireland's tourism industry is missing out on significant levels of business and jobs because the region's airports find it increasingly difficult to obtain crucial new routes. With two million passengers travelling to Northern Ireland via Dublin Airport, the UK's aviation tax regime places Northern Ireland at a disadvantage."⁵ Northern Ireland's tourism sector has been growing in recent years but is still small compared to its neighbours – the Republic and mainland Great Britain. Ireland's population is 2.8 times larger but in 2016, tourism revenues were eight times greater than in Northern Ireland. In 2013 Northern Ireland tourism industry's contribution to GDP was 5.2% compared to 10.3% in Scotland and 13.9% in Wales⁶. More needs to be done to promote the Northern Irish tourism industry and a boost to Northern Irish tourism industry is a boost for the wider economy.

Northern Ireland is in a unique position geographically as a part of the UK. As part of an island, its citizens almost wholly rely on air transport as a means to travel outside of its borders and so any air tax puts Northern Ireland's residents who wish to travel and do business at a significant disadvantage. Northern Irish airports also face direct and significant competition from the Republic of Ireland, particularly competition from the rapidly expanding Dublin Airport.

The Republic of Ireland had an equivalent Air Travel Tax (ATT), which was abolished in 2014. In the process of abolishing the tax it received commitments from carriers to increase their capacity in return. Dublin Airport has significantly increased its passenger footfall, connectivity and thus competitiveness since abolishing ATT. The abolition of the tax gave a greater financial incentive and flexibility for carriers that flew to Dublin to introduce new routes, thereby increasing connectivity and competitiveness, for the benefits of the passengers, businesses, airlines, the airports and the regional and national economy. Since 2011, Dublin Airport's annual passenger numbers have increased by 58%, jumping from 18.7 million to 29.6 million at the end of 2017 – an increase of 11 million. The majority of Dublin's growth occurred after the abolition of the ATT, with air traffic passenger numbers increasing by 48% in the following three years from 2014-2017⁷. Comparatively, the passenger thoroughfare for the three Northern Irish airports has only increased by 1.6 million in the same period⁸. Such growth has had positive effects such as increasing tourism and international business. Northern Ireland and particularly Belfast's airports' competitiveness and connectivity have suffered directly from the strong competition from Dublin Airport, which does not impose a comparable tax on passenger air transport, hampering Northern Ireland's tourism sector's growth.

We do not deny the fact that Dublin, as a larger and more populous capital city, is going to have the advantage in any comparison, but Northern Ireland has the potential for greater growth and development, not only in its tourism industry but beyond. APD is stifling that growth. In terms of a

⁵ Northern Ireland Affairs Select Committee, 'Promoting the tourism industry in Northern Ireland through the tax system', March 2017, p. 28

⁶ Deloitte & Oxford Economics, 'Tourism: jobs and growth, the economic contribution of the tourism economy in the UK', November 2013

⁷ Dublin Airport, 'Dublin Airport Sets New Passenger Record', <https://www.dublinairport.com/latest-news/detail/dublin-airport-sets-new-passenger-record>, 23 January 2018

⁸ Figures provided by Northern Ireland's airports to AFTOF

UK comparison, in 2017 Northern Ireland's three airports had 8.6 million passengers pass through them, while Edinburgh alone had over 13.5 million⁹.

Question 5: What impact do VAT and APD have on people considering visiting Northern Ireland for business purposes?

Air passenger tax has an impact on people considering Northern Ireland, and indeed the UK, for business purposes, as well as UK businesses that trade internationally, particularly SMEs. APD has had an impact on the destinations available for business passengers as well as the frequency of routes and price of tickets. Physical ease of access to markets is a significant factor in expanding and trading internationally. Business travelers flying from the UK are facing an additional tax burden of over £325 million compared to comparable economies such as Italy and France, over £275 million compared to Germany and over £450 million compared to the Republic of Ireland as a result of the UK's APD rates¹⁰. Furthermore, in a survey of businesses with over £50,000 annual turnover in 2017 commissioned by the A Fair Tax on Flying campaign, over 75% of those based in Northern Ireland agreed that reducing the APD would help the UK remain competitive as a trading nation once we leave the EU¹¹.

Question 6: What was the impact of Northern Ireland Assembly's 2012 decision to set a £0 APD rate on direct long-haul flights departing Northern Ireland?

The Chief Executive of Belfast City Airport Brian Ambrose summed up Northern Ireland's APD situation in 2017 saying 'while it (APD) is devolved for long haul, 99% of our business is not long haul, so it's not really making any great impact. Dublin led the way, they saw the benefits, they are reaping the benefits, they are hitting record numbers'¹². The Northern Ireland Assembly's 2012 decision to set a £0 APD rate on direct long-haul flights departing Northern Ireland was a positive step forward and widely welcomed by the tourism industry. However, it was a half measure. In the case of Northern Ireland and covered in detail above, short-haul is a far larger market and without the removal of the short-haul APD it remains poorly connected to key European cities in contrast to Dublin. Northern Ireland is a unique case within the UK and so we don't believe that the £0 long-haul APD change is a useful comparison for the change for wider UK APD. Giving evidence to the Northern Ireland Affairs Committee, both the Managing Director of Belfast International Airport and the Chief Executive of Belfast City Airport agreed that while Belfast's airports cannot compete with Dublin's, they were still underperforming and that because of APD their airports were failing to attract new carriers, encourage expansion and were losing existing routes¹³. When carriers look to

⁹ Figures provided by Northern Irish airports and Edinburgh Airport, 'A record year for a Scottish airport', 12 January 2018 and <https://www.edinburghairport.com/about-us/media-centre/press-releases/a-record-year-for-a-scottish-airport>

¹⁰ A Fair Tax on Flying, 'Chancellor hits British businesses with £400m additional 'tax on trade'', 17 September 2017 <http://www.afairtaxonflying.org/chancellor-hits-british-businesses-400m-additional-tax-trade/>

¹¹ Polling conducted by ComRes copies available on request

¹² Belfast Telegraph, 'Air passenger duty as anchor on tourism growth says airport boss', 24 April 2017, <https://www.belfasttelegraph.co.uk/news/northern-ireland/air-passenger-duty-an-anchor-on-tourism-growth-says-airport-boss-35648128.html>

¹³ Northern Ireland Affairs Select Committee, 'Promoting the tourism industry in Northern Ireland through the tax system', March 2017

open up new routes, Northern Ireland is consistently losing out to other European cities because APD makes expansion less viable. This is similar for regional airports across the UK. A cut in the burden of APD would mean greater development of regional routes and thus regional growth across the UK. We urge HM Treasury to cut APD nationwide.

Cutting APD to increase passenger footfall and jobs

We believe that a cut in APD at all levels in Northern Ireland would lead to a significant increase in the number of new routes and capacity, boosting passenger footfall, creating new jobs and benefiting the consumer. We believe these advantages would be replicated across the UK should a nationwide cut be implemented. Indeed, Northern Ireland's three airports now assert that, based on discussions with airlines, should APD be abolished they can increase their total number of passengers by 1.5 million within 3 years. This would directly create at minimum 1,100 jobs in Northern Ireland and many more indirect jobs¹⁴. Separately, Graham Keddie, Managing Director of Belfast International Airport has publically estimated based on his discussions with carriers that the removal of short-haul APD would cause airlines to add around a million seats a year¹⁵. Ryanair has publicly pushed for the abolition of APD, with its Chief Marketing Officer Kenny Jacobs claiming in March 2017 that Ryanair could "probably double flights from Northern Ireland if the tax was removed"¹⁶. Airlines do respond to changes in APD and consider it an important factor in their operations. As such, in Northern Ireland, and indeed the whole of the UK, a reduction would see a rise in passenger numbers and jobs, boosting both the regional and national economy. The economic and consumer advantages of cutting APD can be applied to the whole of the UK without Northern Ireland losing out, it is a win-win.

APD in Scotland

Following the devolution of APD to the Scottish Government and the subsequent announcement to cut the tax by 50% before full abolition airlines took notice. Carriers opened routes from Edinburgh, in particular to Northern America, on the premise that APD would likely be cut. Indeed, an Edinburgh Airport report found that even a 50% reduction in air passenger duty would create almost 4,000 jobs by 2020 and stimulate £200 million in economic benefits every year. Failure to act would see Scotland's airports lose over a million passengers and up to £68 million in tourism growth per year by 2020. The report found that any loss of the tax revenues would be offset by the benefits of a 50%

¹⁴ Figures provided by Northern Ireland's airports

¹⁵ The Irish News, 'APD 'tax on tourists' sees a million passengers abandon Northern Ireland airports', 8 May 2018, <http://www.irishnews.com/business/2018/05/08/news/apd-tax-on-tourists-sees-a-million-passengers-abandon-northern-ireland-airports-1323743/>

¹⁶ <https://www.belfasttelegraph.co.uk/business/news/ryanair-could-double-northern-ireland-flights-if-air-tax-scrapped-35517070.html>

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reduction¹⁷. EasyJet publicly stated that any reduction in the tax would see a 30% increase in services, increasing passenger numbers from 5.5 million to 7 million a year.¹⁸

Delays in implementing this policy, despite the Scottish Parliament passing the Air Departure Tax (Scotland) Act in July 2017, has led to the cutting of flights and routes from carriers operating out of Glasgow and Edinburgh. Norwegian Air axed and reduced some of its recently new US routes stating “the Scottish Government’s postponement of a reduction to air passenger taxes has led us to review existing transatlantic services from Edinburgh...We will be reallocating this capacity into other markets where air passenger taxes do not present a barrier to our growth”¹⁹. Ryanair followed suit, directly citing APD as a factor in its decision to cut its Glasgow airport routes from 23 to three and transfer five to Edinburgh, putting 300 jobs at risk. Indeed Ryanair’s chief commercial officer David O’Brian commented that because of the tax ‘there are other markets in the UK and Europe which offer a more compelling position’²⁰. Such moves show that APD has a significant effect, particularly on regional airports ability to offer services and the frequency of those services and reinforce the need for a UK wide cut in APD.

Air Tax in the Netherlands

The Dutch government had hoped to raise close to \$400 million through the tax but it is estimated that it cost the Dutch economy \$1.7 billion²¹.

A strong example in the case for removal was the effects of the Netherlands introducing an Air Passenger Tax in from 1st July 2008 to 1st July 2009, which was set at €11.25 for EU destinations and 2,500km away and €45 for all other destinations. The effects of the financial crisis meant declining passenger demand globally and so it is hard to accurately calculate the impact of the tax on Dutch airport demand on passenger numbers when the tax was introduced. However, there was a noticeable drop in the number of passengers flying out of Schiphol after the introduction of the tax compared with transfer passengers who did not pay tax. There was also a noticeable rise in the number of Dutch passengers travelling through neighbouring countries’ airports after the introduction of the tax, particularly from Dutch airports located close to national borders, such as Belgium or Germany. This had a knock-on effect on the aviation industry, further depressing it.

Owing to the adverse effects of the tax on the aviation sector it was set at €0 a year after it was introduced to try and recapture previous passengers who had defected to foreign airports. It is clear then, from the Dutch experiment, that price of flights has a direct impact on consumer behaviour and was harming the growth of the Dutch aviation industry. Northern Ireland too should start

¹⁷ Edinburgh Airport, ‘The impact of reducing APD on Scotland’s airports’, March 2015

¹⁸ The Independent, ‘Easyjet to increase Scottish flights if SNP reduces airport tax’, 14 March 2016
<https://www.independent.co.uk/news/uk/home-news/easyjet-to-increase-scottish-flights-if-snp-reduces-tax-at-airports-a6930906.html>

¹⁹ The Scotsman, ‘Norwegian to axe a US route from Edinburgh over tax cut delay’, 16 January 2018
<https://www.scotsman.com/news/transport/norwegian-to-axe-a-us-route-from-edinburgh-over-tax-cut-delays-1-4663009>

²⁰ The Telegraph, ‘Ryanair axes 20 routes and its base at Glasgow Airport’, 27 February, 2018
<https://www.telegraph.co.uk/news/2018/02/27/ryanair-axes-20-routes-base-glasgow-airport/>

²¹ IATA, ‘Airline taxation is taxing economies’, <http://airlines.iata.org/analysis/airline-taxation-is-taxing-economies>

working towards reversing the damage that APD has done towards its economy and start the process of both recapturing and capturing Northern Irish outbound and international inbound passengers from Dublin and encouraging new tourists and business travellers to Northern Ireland. Reducing APD nationwide would encourage more inbound tourists and business passengers from the rest of Europe and further afield to visit the UK.

Question 9: What evidence is there that the impacts of VAT and APD on tourism differ from the impacts of VAT and APD on other sectors of the economy?

The A Fair Tax on Flying campaign is backed by a number of leading business groups owing to the impact of APD on businesses throughout the UK. Whilst APD has an impact on the tourism sector it also places UK businesses at a competitive disadvantage owing to being the highest form of aviation taxation across the EU and, more than twice that of the next highest, the Air Travel Tax in Germany.

We believe that it is essential that as we look to develop new trading relationships in a post-Brexit world, that this competitive disadvantage is removed and that APD is cut nationwide by at least 50% to ensure that the UK is seen as 'open for business.'

Question 10: How would different VAT rules for tourism related activities in Northern Ireland, and/or a lower rate of APD in Northern Ireland affect the tourism industry in other parts of the UK?

A cut in APD across the UK would allow all the regions of the UK to compete effectively to attract new routes and expand existing ones and thus increase tourism, inward investment and business links as well as improve connectivity and choice for consumers. As covered elsewhere throughout this response, aviation plays a vital role in the economies of each of the UK regions and, as such, the benefits of reducing APD for all warrant further consideration. The economic boost available from reducing APD has never been more needed, as the UK seeks to build a prosperous, open, trading relationship with new markets across the globe as we leave the EU.

As our answers establish, there are regional connectivity problems across the UK, and while Northern Ireland is geographically isolated from mainland Great Britain and in a unique competitive situation with a neighbouring country, the Republic of Ireland, many of the negative effects of APD are just as prevalent elsewhere throughout the UK. The aviation markets of the UK are also inter-linked, albeit less strongly between Northern Ireland and the rest of the UK than within mainland Great Britain, and it is important that any reduction to APD in Northern Ireland, or in any other part of the UK, should be matched by cuts to APD across the rest of the UK, to ensure all regions can thrive and compete domestically and internationally.

We ask that, using the evidence submitted in this response, HM Treasury look into the impact of APD on the UK as a whole, to understand the impact of any changes in one part of the UK on the other parts of the country, and not simply its impact on Northern Ireland. We recommend that, alongside addressing the detrimental competitive situation with the Republic of Ireland, a further consultation should look at the impact of APD in the UK as a whole.

Question 11: Would a lower rate of APD encourage outbound tourism from Northern Ireland? What effect would this have on the tourism industry there?

UK outbound travellers are worth more than £11.7 billion a year to the UK economy (GVA); and in excess of £28.3 billion by the time aggregate impacts are taken into account²² The sector also made a direct contribution of £2.4bn to the Exchequer, whilst UK residents spent more than £35 billion in the UK on outbound travel related items in 2016²³. London had the greatest absolute regional contribution, including direct and multiplier impacts, estimated at £7.7 billion, with Northern Ireland contributing the smallest amount of £260 million²⁴. While London and Northern Ireland are vastly different in terms of size, infrastructure and demand, Northern Ireland is still lagging behind *all* other regions in the UK. A lower rate of APD would mean that Northern Ireland could both capture its residents that travel across the border to use the Republic's airports, as mentioned above, and increase new outbound tourist demand by offering cheaper flights and more routes. Such a move would invigorate the outbound tourism sector in Northern Ireland and ensure that spending and other tax revenue does not flow across the border to Ireland where many passengers currently fly from. We believe the outbound tourism industry would significantly benefit both in Northern Ireland and the rest of the UK if APD were cut nationwide.

Question 12: What would be the individual and/or collective impact of a change to VAT on: accommodation, leisure activities and restaurants, other tourism related activities and/or a change to APD rates in Northern Ireland on tax revenue and the wider economy?

A Fair Tax on Flying calls on the government to cut APD nationwide by at least 50% to truly take advantage of the economic benefits of air travel and to the benefit of consumers, businesses, the aviation and tourism industry and regional and national governments. Analysis by PwC done in 2015 found that UK-wide abolition of APD could create 61,000 jobs by 2020 and could raise more than £500 million in extra tax receipts in the first two fiscal years fully offsetting the cost of abolition²⁵. Should APD be cut then we believe there would be a positive impact on other tourism related activities and accommodation, leisure and restaurants thanks to a greater number of outbound and inbound tourists and business passengers travelling to Northern Ireland. We believe that any reduction in APD would be offset by an increase in revenues generated from existing taxation measures due to the resulting growth in economic activity. Reducing or abolishing APD nationwide would allow the UK to further boost its tourism and tourism-related industries and regain its connectivity edge that its currently being lost to other European hub airports like Schiphol or Charles de Gaulle.

Question 13: How would businesses in the tourism sector respond to VAT and APD changes and to what extent would those changes be passed through to consumers in the form of lower prices?

We believe that if the Government reduced APD by at least 50% that consumers would benefit from increased choice at the UK's airports, as was seen across Europe when other Governments took decisive action to support their aviation industry and consumers.

²² ABTA/CEBR, 'Driving Growth', 2015

²³ ONS – Tourism Satellite Accounts, May 2016

²⁴ ABTA/CEBR, 'Driving Growth', 2015

²⁵ PriceWaterhouseCooper, 'The economic impact of Air Passenger Duty: Analytical update', May 2015

Question 14: What evidence is there that VAT and/or APD rate changes are a relatively cost-effective means of supporting the tourism industry?

Research by PWC in 2015 demonstrates that reductions to APD would boost growth and found that more tax revenue would be raised from other taxes than is lost from abolition²⁶.

It also found a net £570 million in extra tax receipts in the first fiscal year, and positive benefits through to 2022 that could add up to as much as £2 billion additional tax receipts in total compared with the status quo. APD abolition could boost UK GDP by 0.46% in the first year, with ongoing benefits up to 2022, the majority of which benefits will be derived by the tourism and aviation sector. Any cut to APD would be offset by the economic benefits it would generate. As well as being key to connecting the UK to emerging markets, the aviation and travel industries make a significant contribution to the UK economy. The increased economic output associated with abolition of the APD could lead to the creation of 61,000 jobs by 2022, many of these being in the tourism and aviation sector. We believe the cost of implementing a change in APD would be a cost effective and simple means of supporting both the tourism industry and the wider UK economy as we transition into Brexit²⁷.

Question 15: How would a UK-wide change to VAT or APD benefit the tourism industry?

As the arguments above have concluded, we believe the whole of the UK would benefit from changes to APD, not only because of the advantages it would bring to the tourism industry, aviation sector, consumers, business passengers and the UK economy as a whole. A cut in APD would be particularly welcomed as the UK heads towards leaving the EU and looks to strengthen its existing and develop new trading relationships. A UK-wide change to APD would provide a significant boost to the UK inbound and outbound tourism industry. Looking towards the Republic of Ireland's abolition of their own equivalent tax we can see the clear link between lower airfares and increasing capacity combined with choice and frequency of flights towards destinations and increase in passenger footfall. The UK would increase its attractiveness as a destination for both European and long-haul tourists and business travellers. Domestic tourists and business travellers in the UK paying the short-haul tax twice would also benefit. Furthermore, as mentioned previously, the increased economic output associated with abolition could lead to the creation of 61,000 jobs by 2022, many of these being in the tourism and aviation sector²⁸.

While we have finished answering the consultations questions, AFTOF has a few additional points it would like to add, as listed below.

APD is a tax on trade

One of the key challenges facing the UK is our future trading agreements after leaving the European Union. Since the referendum vote, the Government have made seeking new trading partners a key priority, as was outlined by Prime Minister Theresa May: 'important though our trade with the EU is

²⁶ PriceWaterhouseCooper, 'The economic impact of Air Passenger Duty: Analytical update', May 2015

²⁷ PriceWaterhouseCooper, 'The economic impact of Air Passenger Duty: Analytical update', May 2015

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and will remain it is clear that the UK needs to increase significantly its trade with the fastest growing export markets in the world'²⁹. However, the current APD levels place the UK at a substantial competitive disadvantage, with the highest rates for any flight in any cabin to the EU and the highest in the world for long-haul flights in both business and economy. The UK is ranked 133 out of 136 countries in the global Travel and Tourism Competitiveness Index (TTCI) for air passenger tax and airport charges³⁰. Out of 28 EU countries, only four levy a form of air transport tax, with Belgium, Denmark, the Netherlands, Malta, Ireland and Norway having scrapped their equivalent taxes. It is essential that our future trading partners view Britain as 'open for business' and an attractive place to visit and invest. The current levels of APD add an unnecessary additional cost for both UK businesses and businesses trading with the UK.

In the Government's call for evidence for a new Aviation Strategy in July 2017 it noted 'improved connectivity to and from the UK facilitates inward investment and growth'³¹. However, there is evidence that the UK's connectivity as a whole is slowing down compared to its major rivals. Aviation connectivity has a mutually beneficial relationship with trade and FDI, whereby both develop together. This symbiotic relationship was demonstrated by the regression analysis done by the CBI, which showed a clear link between direct flights and trade between EU economies³². However, between 2007 and 2017, the UK's direct connectivity has expanded by 2%, compared to Ireland (10%), The Netherlands (27%), Greece (36%), Portugal (57%), Russia (61%) and Turkey (182%). This year, Europe generally saw a decline in its direct connectivity to Asia Pacific, for example, although these were concentrated at London-Heathrow (-11.3%) and Frankfurt (-10.5%) – both of which have an aviation tax. All the other major airports have achieved notable increases for example, Paris-Charles de Gaulle (+7.6%), Amsterdam-Schiphol (+11.4%). Heathrow now ranks as number 8 among the best connected global hubs, and fifth of European airports – Frankfurt, Amsterdam-Schiphol, Paris-Charles de Gaulle and Istanbul-Atatürk are all better connected³³. UK is increasingly lagging behind its European neighbours.

Long-haul APD, in particular, limits the development of new routes to rapidly developing second or third tier cities in emerging markets including China, India and Brazil. Such routes promote international trade and should be key targets for the British export market as they encourage FDI and international inbound tourism. A CBI report has found that up to £175,000 can be generated through trade from a high-growth market per average flight, and new daily flights to the eight largest high-growing economies could generate up to as much £1 billion in additional trade per year. Research by Frontier Economics for Heathrow Airports demonstrates the economic value of new connections, with a weekly connection to five Chinese destinations adding £16 million to GDP and 530 new jobs³⁴.

²⁹ <https://www.gov.uk/government/speeches/the-governments-negotiating-objectives-for-exiting-the-eu-pm-speech>

³⁰ World Economic Forum, 'The Travel & Tourism Competitiveness Report 2017

³¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/636625/aviation-strategy-call-for-evidence.pdf

³² CBI, 'Trading places: Unlocking export opportunities through better air links to new markets', February 2013

³³ Airports Council International, 'Airport industry connectivity report 2017', June 2017

³⁴ Frontier Economics, 'The economic impact of connections to China, January 2018

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According to the CBI, almost half (48%) of UK firms see cheaper airfares as either a “crucial” or “important” factor impacting on their travel decisions. Less than half (45%) of firms would say that our emerging market connections are “fit for purpose”. Further, nearly two-thirds (64%) of firms see emerging markets as either “crucial” or “important.” 92% of businesses also classified air links to one or more market as either “crucial” or “important” to the running of their operation. The research undertaken by ComRes also shows that 82% of British businesses believe that APD should be cut as Britain leaves the EU³⁵. At present, businesses in the UK face a competitive disadvantage from both APD and the increased connectivity at the disposal of our European neighbours. Reducing APD not only cuts the tax on trade, it will also support the development of greater connectivity and new routes, which benefits the UK’s economy.

How aviation pays its own way

An Oxford Economics Report published in November 2014 found that the aviation sector contributes £52 billion to the UK economy or 3.4% of UK GDP; £21.3 billion through direct output contribution, £16.3 billion indirect supply chain contributions and £12.9 billion through wage financed spending by employees of the aviation sector and its direct supply chain. Almost a million jobs are supported by the UK aviation sector directly, indirectly and through the payment of wages stimulating consumer spending. The average aviation sector employee generates £84,000 annually, 60% higher than the average income in the UK. Taxes paid by aviation firms and employees is around £5.9 billion and over £6.3 billion of government revenue is generated by the aviation sector’s supply chain. It is clear then that the aviation sector contributes significantly to the UK economy and through taxes³⁶ while remaining unsubsidised unlike other modes of transport in the UK.

Air Passenger Duty as an environmental tax

While the justification for APD is that it is an environmental tax that aims to curb flights, we would argue that it is an environmental tax only in name. Some have argued that high levels of APD are ‘good for the environment’. However, none of the money raised is in any way associated or allocated to support environmental initiatives, but is merely used for general government funding purposes. There is no link between the emissions of individual aircraft and the tax paid as there is, for example, within Vehicle Excise Duty for cars. In addition, it is a government objective to both help the aviation and tourism sectors grow and raise the international profile of the UK and its place in the world as a key global trading power, as stated by Baroness Sugg in her introduction to the *Next steps towards an Aviation Strategy* Report in April 2018, where she said: “passengers benefit from the UK’s strong position in the global aviation market. As we leave the European Union we want to build on this position as we continue to develop our links with the rest of the world” and “aviation will continue to be a priority for the government”³⁷. With the Brexit negotiations

³⁵ Polling conducted by ComRes copies available on request

³⁶ Oxford Economics, ‘Economic benefits from air transport in the UK’, November 2014

³⁷ HM Government, ‘Beyond the horizon: The future of UK aviation’, April 2018

underway, the UK needs to resiliently get the tourism and aviation industry to work to its advantage. The simplest, quickest and best way to do this is to cut APD nationwide.

Finally, thanks to huge leaps in aviation technology and new aircraft, sustainable fuels, and an increase in fuel management and operational efficiency, the UK aviation industry can accommodate more growth without substantial increases in emissions. Between 2005 and 2015, the UK aviation sector has improved its fuel efficiency by almost 12%, equivalent to saving 20 million tonnes of CO₂ and between 2012- 2015, six million tonnes of CO₂ emission reductions were made by UK airlines through the EU Emissions Trading Scheme. UK airlines are currently investing significant amounts to upgrade their fleets to more efficient models, which also have the added benefit of lower noise pollution. Between 2010 and 2012, the combined carbon footprint of the UK's 18 biggest airports – representing 95% of passengers using UK airports – reduced by 3%, whilst passenger numbers increased by 5%. Efficiency of airspace management has already saved more than a million tonnes of CO₂ per year³⁸. The environmental impact of aviation is consistently being improved and means that any increase in aviation has less of an impact on the environment.

Annex A

Airlines UK

American Airlines

Association of British Travel Agents (ABTA)

Association of National Tourist Offices and Representatives (ANTOR)

Birmingham Airport

Board of Airline Representatives in the UK (BAR UK)

Bristol Airport

British Airline Pilots' Association (BALPA)

Emirates

Gatwick Airport

Guild of Travel Management Companies (GTMC)

Heathrow Airport

International Air Transport Association (IATA)

International Airlines Group (IAG)

Manchester Airport

Newcastle Airport

³⁸ Sustainable Aviation, 'CO₂ road-map', December 2016

Scottish Passenger Agents' Association

The Airport Operators Association (AOA)

The Peel Group

Thomas Cook

Tourism Alliance

TUI Group

UKInbound

Unite

Virgin Atlantic

Annex B

| MP | Party |
|----------------------|------------------|
| Sir David Amess MP | Conservative |
| Tonia Antoniazzi MP | Labour |
| Alan Brown MP | SNP |
| Baroness Lorely Burt | Liberal Democrat |
| Ruth Cadbury MP | Labour |
| Rosie Cooper MP | Labour |
| Philip Davies MP | Conservative |
| Steve Double MP | Conservative |
| Chris Elmore MP | Labour |
| Nigel Evans MP | Conservative |
| Jim Fitzpatrick MP | Labour |
| Yvonne Fovargue MP | Labour |
| Mike Gapes MP | Labour |
| Mary Glendon MP | Labour |
| Kate Hoey MP | Labour |
| Kevan Jones MP | Labour |

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| | |
|---|--------------|
| Jack Lopresti MP | Conservative |
| Mark Menzies MP | Conservative |
| Luke Pollard MP | Labour |
| Laurence Robertson MP | Conservative |
| Jim Shannon MP | DUP |
| Grant Shapps MP | Conservative |
| Gavin Shuker MP | Labour |
| Henry Smith MP | Conservative |
| John Spellar MP | Labour |
| Steve Pound MP | Labour |
| Iain Stewart MP | Conservative |
| Julian Sturdy MP | Conservative |
| Hugo Swire MP | Conservative |
| Mark Tami MP | Labour |
| Ed Vaizey MP | Conservative |
| Martin Vickers MP | Conservative |
| Business Supporters | |
| Greater Manchester Chamber of Commerce | |
| London Chamber of Commerce and Industry | |
| Federation of Small Businesses | |
| GDB | |
| British American Business | |
| Essex Chambers of Commerce | |
| Mid Yorkshire Chamber of Commerce | |
| Liverpool and Sefton Chambers of Commerce | |
| Barnsley and Rotherham Chamber of Commerce | |
| Cambridgeshire Chambers of Commerce | |
| West Cheshire and North Wales Chamber of Commerce | |

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Annex C

| <i>Destination</i> | <i>Dublin</i> | <i>Belfast International</i> | <i>Belfast George Best</i> |
|----------------------------|---------------|------------------------------|----------------------------|
| Aberdeen | ✓ | | ✓ |
| Alicante | ✓ | ✓ | |
| Almeria | ✓ | ✓ | |
| Amsterdam | ✓ | ✓ | ✓ |
| Athens | ✓ | | |
| Bacau | ✓ | | |
| Barcelona | ✓ | ✓ | |
| Bari | ✓ | | |
| Basel | ✓ | | |
| Berlin | ✓ | ✓ | |
| Biarritz | ✓ | | |
| Bilbao Spain | ✓ | | |
| Birmingham | ✓ | ✓ | ✓ |
| Bourges | ✓ | ✓ | |
| Bologna | ✓ | | |
| Bordeaux | ✓ | ✓ | |
| Bratislava | ✓ | | |
| Bremen | ✓ | | |
| Bristol | ✓ | ✓ | |
| Bucharest | ✓ | | |
| Budapest | ✓ | | |
| Bydgoszcz | ✓ | | |
| Cardiff | ✓ | | ✓ |
| Catania | ✓ | | |
| Carcassonne | ✓ | | |
| Chisinau | ✓ | | |
| Brussels | ✓ | | |
| Cluj | ✓ | | |
| Cologne | ✓ | | |
| Copenhagen | ✓ | | |
| Corfu | ✓ | | |
| Crete | | ✓ | |
| Kerry | ✓ | | |
| Doncaster | ✓ | | |
| Donegal | ✓ | | |
| Dubrovnik | ✓ | ✓ | |
| Dusseldorf | ✓ | | |
| Nottingham - East Midlands | ✓ | | ✓ |
| Edinburgh | ✓ | ✓ | ✓ |
| Eindhoven | ✓ | | |

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| | | | |
|-----------------|---|---|---|
| Exeter | ✓ | | ✓ |
| Faro | ✓ | ✓ | ✓ |
| Frankfurt | ✓ | | |
| Fueteventura | ✓ | | |
| Gdansk | ✓ | ✓ | |
| Geneva | ✓ | ✓ | |
| Gerona | | ✓ | |
| Girona | ✓ | | |
| Glasgow | ✓ | ✓ | ✓ |
| Gran Canaria | ✓ | | |
| Hamburg | ✓ | | |
| Helsinki | ✓ | | |
| Ibiza | ✓ | ✓ | |
| Inverness | ✓ | | ✓ |
| Isle of Man | ✓ | | ✓ |
| Jersey | ✓ | ✓ | |
| Kerry | ✓ | | |
| Katowice | ✓ | ✓ | |
| Kaunas | ✓ | | |
| Krakow | ✓ | ✓ | |
| La Rochelle | ✓ | | |
| Lanzarote | ✓ | ✓ | |
| Lamaca | ✓ | | |
| Las Palmas | | ✓ | |
| Liverpool | ✓ | ✓ | ✓ |
| Leeds | ✓ | | ✓ |
| Lisbon | ✓ | | |
| Lodz | ✓ | | |
| London City | ✓ | | ✓ |
| London Southend | ✓ | | |
| London Gatwick | ✓ | ✓ | |
| London Stansted | ✓ | ✓ | |
| London Heathrow | ✓ | | ✓ |
| London Luton | ✓ | ✓ | |
| Lublin | ✓ | | |
| Luxembourg City | ✓ | | |
| Lyon | ✓ | ✓ | |
| Madrid | ✓ | | |
| Mahon (Menorca) | | ✓ | |
| Madeira | | ✓ | |
| Malaga Spain | ✓ | ✓ | ✓ |
| Malta | ✓ | ✓ | |
| Manchester | ✓ | ✓ | ✓ |
| Marseille | ✓ | | |

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| | | | |
|---------------------------|---|---|---|
| Memmigen | ✓ | | |
| Milan – Bergamo | ✓ | ✓ | |
| Milan – Linate | ✓ | | |
| Milan, Malpensa | ✓ | | |
| Montpellier | ✓ | | |
| Munich | ✓ | | |
| Murcia | ✓ | | |
| Nantes | ✓ | | |
| Naples | ✓ | ✓ | |
| Newcastle Upon Tyne | ✓ | ✓ | ✓ |
| Newquay | ✓ | | ✓ |
| Nice | ✓ | ✓ | |
| Nottingham | ✓ | | |
| Oslo | ✓ | | |
| Palermo | ✓ | | |
| Palma | ✓ | ✓ | ✓ |
| Paphos | | ✓ | |
| Paris – Orly | ✓ | | |
| Paris – Charles de Gaulle | ✓ | ✓ | |
| Perignon | ✓ | | |
| Pisa | ✓ | | |
| Porto | ✓ | | |
| Poznan | ✓ | | |
| Plovdiv | | ✓ | |
| Prague | ✓ | | |
| Pula | ✓ | | |
| Rennes | ✓ | | |
| Reus | ✓ | ✓ | |
| Reykjavik | ✓ | ✓ | ✓ |
| Riga | ✓ | | |
| Rome – Ciampino | ✓ | | |
| Rome - Fiumicino | ✓ | | |
| Rzeszow | ✓ | | |
| Santander | ✓ | | |
| Salzburg | | ✓ | |
| Santiago De Compostela | ✓ | | |
| Seville | ✓ | | |
| Sheffield | | | ✓ |
| Sofia | ✓ | | |
| Southampton | ✓ | | ✓ |
| Split | ✓ | ✓ | |
| Stockholm | ✓ | | |
| Stuttgart | ✓ | | |
| Szczecin | ✓ | | |

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| | | | |
|----------|-----|----|---|
| Tallinn | ✓ | | |
| Tenerife | ✓ | ✓ | |
| Tours | ✓ | | |
| Toulouse | ✓ | | |
| Valencia | ✓ | | |
| Venice | ✓ | | |
| Verona | ✓ | ✓ | |
| Vienna | ✓ | | |
| Vigo | ✓ | | |
| Vilnius | ✓ | ✓ | |
| Warsaw | ✓ | ✓ | |
| Wroclaw | ✓ | ✓ | |
| Zadar | ✓ | | |
| Zante | | ✓ | |
| Zurich | ✓ | | |
| Total | 138 | 51 | 23 (11 which are not also covered by Belfast International) |

Sources – accessed 14/05/2018

Dublin Airport - Summer Schedule 2018 Routes

<https://online.flippingbook.com/view/451805/5/#zoom=z>

Belfast International Airport - Website <https://www.belfastairport.com/flights/destination-map#>

Belfast George Best Airport - <http://www.belfastcityairport.com/Flight-Information/Routes>