



The Consumer Council

## **Consumer Council for Northern Ireland response to HM Treasury consultation on the Reform of Air Passenger Duty**

**16 June 2011**

The Consumer Council for Northern Ireland (CCNI) has statutory responsibility under the General Consumer Council (Northern Ireland) Order 1984 to represent the interests of passengers travelling to, from and within Northern Ireland (NI). CCNI welcomes the opportunity to respond to this consultation on the reform of air passenger duty and is willing to meet with HM Treasury to discuss its response in greater detail if desired.

HM Treasury explains in the consultation that “in considering possible reform of aviation taxation, the Government is therefore keen to stress its requirement for revenue, within a tax regime that is fair to everyone”. NI’s geographic location means the region’s consumers are more heavily reliant on air travel than other UK citizens to access Great Britain (GB) and further afield. CCNI believes that given this high dependence on air travel, APD, in its current structure, is unfair as it financially disadvantages NI consumers in comparison to their GB counterparts. Furthermore, the consultation document explains “taxation of air transport should be structured as simply and as efficiently as possible, so that taxes do not unduly impede consumers, business or industry.” APD at its current level undeniably impedes NI consumers who have little option but to fly to access GB, Europe and further afield. Not only is APD a major issue for consumers it also represents an additional cost to business and tourism, discouraging trade with, and foreign investment into NI.

NI is unique because as part of the UK it has the highest rate of aviation duty in Europe (the estimated amount of APD receipts for Northern Ireland for

2009/10 is £55 million<sup>1</sup>) but also has a land border with another state, the Republic of Ireland (ROI), that currently charges Air Travel Tax (ATT) at €3 per person per flight and has committed to remove ATT altogether dependant on growth in passenger numbers. The current disparity between NI and ROI in terms of aviation duty will serve to undermine the NI aviation sector with passengers incentivised to travel via airports in ROI rather than NI in order to save money. Decreased demand for air services from NI's airports could lead to a decline in the number of services and routes operated, reducing choice and convenience for consumers living in NI.

It is the issue of connectivity that is the main concern for the Consumer Council. Decreased demand for air services from Northern Ireland's airports could lead to a decline in the number of services and routes operated, reducing choice and convenience for consumers living in Northern Ireland.

Furthermore, an increase in the number of Northern Ireland passengers travelling via ROI airports rather than Northern Ireland airports will result in a loss of revenue for HM Treasury, Northern Ireland airports and the region's economy. Our own research, *Flights and Rights*, published in May 2010 stated that passengers from Newry and Enniskillen feel it is much easier to travel to Dublin airport by bus than it is to either of the Belfast Airports and with the recent road improvements through to the Republic of Ireland Dublin Airport is a viable alternative to many Northern Ireland consumers.

In addition to the planned removal of ROI ATT there has also been an announcement by the Dublin Airport Authority to rebate the €11.50 passenger charge paid by airlines using Dublin airport for each passenger that travels in 2011 in excess of 2010 passenger numbers. Passenger numbers will of course be impacted by the recession in ROI, however, 2010 passenger numbers will also have been hit by the impact of the ash cloud so surpassing the 2010 passenger numbers is realistic.

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<sup>1</sup> Based on Public Expenditure Statistical Analysis estimates and annual UK Air Passenger Duty receipts

The rebate system will run until 2013 and each year passenger charges will be rebated for the growth element of passenger numbers compared to the previous year. Passenger charges will also be rebated at the ROI's other state airports - Shannon and Cork

Michael Noonan, the Irish Finance Minister delivered a statement to the Dail in relation to the Government's Jobs initiative in early May. The Jobs Initiative documents states that, 'as part of the measures to support the tourism industry, a VAT reduction will be targeted mainly at those services relating to tourism. In this context, a new temporary second reduced rate of VAT at 9% will be introduced with effect from 1 July 2011 until end-December 2013.

The new 9% rate will apply mainly to restaurant and catering services, hotel and holiday accommodation and various entertainment services such as admissions to cinemas, theatres, museums, fairgrounds, amusement parks and sporting facilities.'

As stated earlier, the Consumer Council's main concern is connectivity to the rest of the UK for NI consumers and this package of measures being implemented by the Irish Government could have the combined effect of making air travel to and from the Republic of Ireland more financially attractive than Northern Ireland.

Therefore, the environment of increasing charges for NI consumers against decreasing charges for flights from the Republic of Ireland could have a major impact on connectivity for NI consumers from NI airports.

HM Treasury exempts certain flights departing from airports in the Scottish Highlands and Islands from paying APD<sup>2</sup>. Given the high dependence of NI consumers on air travel as a result of the region's peripherality and the impact on the NI aviation sector caused by the disparity between NI and ROI aviation duties, CCNI believes HM Treasury should extend the flexible application of APD to cover flights to and from NI.

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<sup>2</sup> APD is not payable on flights departing from airports in the Scottish Highlands and Islands that seat less than twenty passengers, or have a maximum take-off weight of less than ten tonnes.

CCNI believes APD for air travel to and from NI should mirror the rate of ATT in the ROI. CCNI thoroughly opposes the two proposed options for reform of APD outlined in the consultation as both would see APD increase for air services operating from the region.

The Government has committed to invest in high speed rail to reduce dependence on domestic air travel. DfT estimates the total infrastructure capital cost of the HS2 Y network including a link to Heathrow would be around £32.2 billion and that it would generate overall benefits including Wider Economic Impacts of between £40 billion and £47 billion<sup>3</sup>. NI consumers will not benefit from the development of high speed rail in GB and so to ensure equality with other UK regions CCNI believes HM Treasury should reduce / remove APD for flights to and from NI in line with the rate of ATT to benefit the region's consumers and its economy. As a first step HM treasury should conduct an appraisal of the economic benefit to NI that would result from a reduction / removal of APD for flights to and from the region.

To promote choice for consumers and enable the region's economy to grow it is important that NI is able to attract airlines to offer a greater range of direct services to worldwide destinations. In addition to its domestic and European routes NI is currently served by a single transatlantic service. The removal of the ROI ATT means it will cost £60 more in terms of aviation duty to fly to New York from Belfast than from Dublin. This additional cost threatens the viability of NI's only transatlantic service and deters the introduction of additional routes.

CCNI recognises the 1944 ICAO Chicago Convention prevents the introduction of a per plane duty. CCNI would discourage HM Treasury from continuing its efforts to work with international partners to build support for this approach in future. A per plane duty would lead to NI passengers, who are dependent on air travel to access GB hub airports in order to travel further

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<sup>3</sup> Department for Transport, February 2011, Economic Case for HS2 The Y Network and London – West Midlands

afield, being double charged. Other UK passengers by comparison have the option of accessing GB hub airports by road and rail.

Whilst CCNI considers APD should be reduced for flights to and from NI to mirror the rate of ROI ATT, it believes APD should be charged on an equal basis regardless of whether passengers are travelling by private business jet or on a standard scheduled or charter airline service. CCNI believes, however, that flights by emergency and public services, for example, air ambulance, search and rescue, police or fire service should be exempt from APD following the reduction of APD de minimus limit.

CCNI believes the NI Executive should examine whether or not devolution of responsibility for APD to NI would benefit the region's consumers. However, regardless of whether APD is devolved to the NI Executive it is essential that a reduction in APD does not result in a subsequent reduction in the HM Treasury NI Block Grant. On the basis of the issues raised in this response, CCNI believes NI should be afforded special consideration, with APD reduced/removed from flights to and from the region with no subsequent reduction in the NI Block Grant.

Although not addressed in the consultation, the Consumer Council believes HM Treasury should consider the issues consumers face when trying to recover APD on flights that they do not take. When a passenger does not travel they are entitled to recover the APD paid. However, in many cases, the administration fee charged by airlines to reimburse the APD element of the fare paid is similar in price to the duty itself, thus rendering it futile for consumers to reclaim the APD.

For more information or to arrange a meeting to discuss CCNI's position in greater detail, please contact Scott Kennerley, CCNI Head of Transport, on 028 9067 2488 or [skennerley@consumercouncil.org.uk](mailto:skennerley@consumercouncil.org.uk).