

**ABTA's response to the Welsh Affairs Committee
Inquiry on the Devolution of Air Passenger Duty to Wales
October 2018**

1. About ABTA

- 1.1. ABTA – The Travel Association, was founded in 1950 and is the largest travel trade association in the UK, with around 1,200 members consisting of 4,500 retail outlets and offices. Our Members range from small, specialist tour operators and independent travel agencies specialising in business and leisure travel, through to publicly listed companies and household names, from call centres to internet booking services to high street shops. ABTA's focus is ensuring that Members can operate their businesses in a sustainable and successful manner, enabling their customers to travel with confidence.
- 1.2. The success of ABTA Members' businesses is directly reliant on the UK's aviation infrastructure; many of ABTA's larger Members are themselves part of groups that own airlines. Annually, ABTA Members' turnover is in excess of £37 billion. The business of our Members is the provision of quality, efficient, and competitively priced passenger travel.
- 1.3. ABTA welcomes the opportunity to provide evidence to this inquiry. While ABTA is supportive of devolving APD to the Welsh Assembly, we also continue to make the case within this submission for an immediate cut in APD, in the absence of devolution, to be applied across the UK.

2. The restrictive impact of APD on the UK economy

- 2.1. The UK has one of the highest air departure taxes anywhere in the world, and by far the highest within Europe. ABTA supports a reduction in APD of 50%, which would bring the tax into line with the comparable tax rates levied by Germany, a major European competitor and the country with the next highest level of air tax in Europe.
- 2.2. APD has increased markedly since it was introduced in 1994, at a rate of £5 for short-haul flights and £10 for flights beyond Europe. Looking at rates to be applied by 1 April 2019, APD has increased by 160% on short-haul flights within Europe, and 680% for destinations beyond Europe. For non-economy seats, including business class travel, rates of APD have increased by 420% on short-haul routes and an incredible 1620% for other destinations.
- 2.3. ABTA believes the ever-increasing tax burden on people flying puts the UK at a competitive disadvantage, and incentivises travellers departing the UK to consider the use of alternative hubs, both within and also outside of Europe. This is having, and will continue to have, a negative impact on the number of destinations served directly by UK airports, as well as harming air connectivity within

the UK. Indeed, a recent report commissioned by Airlines UK concluded that 66 new routes could be added across the UK if APD were abolished.¹

- 2.4. A number of reports have shown the benefits abolishing APD could bring, including the PwC's 2015 research, *The Economic Impact of Air Passenger Duty*², which projected that APD reform could boost UK GDP by 0.5% in the first year, with continuing positive benefits to 2020. The report found that the Treasury would generate additional revenues from other taxes that would more than offset the tax lost from abolition of APD, with a net £570 million in extra tax receipts in the first fiscal year, and positive benefits through to 2020 that could add up to as much as £2 billion additional tax receipts in total compared with the status quo.
- 2.5. A 2013 analysis by PwC suggests that if APD is abolished, an additional 60,000 jobs could be created across the UK economy, not just in the airline sector. Indeed, the majority of jobs would be created outside of the UK airline industry.³
- 2.6. The UK's imminent departure from the EU provides an opportunity for a strategic review of the role of air taxes in promoting new trade links and greater international connectivity. It is therefore a positive step that the Government noted, during the passage of the Wales Bill in 2017, that it may be appropriate to "revisit" the issue of APD "as Brexit approaches" and "decide how to approach it across the whole country".⁴

3. The Welsh aviation and tourism industry

- 3.1. In 2015, ABTA commissioned the Centre for Economics and Business Research (CEBR) to produce research on the value of outbound travel to the UK economy.⁵ The report found that outbound travel contributes £208 million in direct GVA to the Welsh economy, and a total of £455 million when also accounting for indirect multipliers. Overall, the outbound sector supports the employment of more than 10,500 people (FTEs) – 0.5% of total contribution to region's employment⁶.
- 3.2. Looking at the wider tourism mix, the visitor economy - comprising inbound and domestic tourism - contributes £3.1 billion directly to Wales' GVA each year, and more than £8.7 billion indirectly, when multiplier effects are also included. Forecasts suggest the overall tourism economy – including all parts of the tourism mix, inbound, outbound and domestic - could contribute £13.2 billion annually to the Welsh economy, supporting 236,000 jobs (16.6% of all Welsh jobs) by 2025⁷.
- 3.3. Wales currently contributes £11 million in APD to the Treasury, 0.4% of total income from the tax across England and Wales. ABTA believes devolution of APD to National Assembly of Wales provides

¹ The Impact Of Air Passenger Duty On Airline Route Economics, A report prepared for Airlines UK, September 2018: <http://airlinesuk.org/wp-content/uploads/2018/09/The-Impact-of-Air-Passenger-Duty-on-Airline-Route-Economics-4.pdf>

² The Economic Impact of Air Passenger Duty - Analytical Update (May 2015)

³ The economic impact of Air Passenger Duty, PwC, February 2013: <http://airlinesuk.org/wp-content/uploads/2013/09/APD-study-Abridged.pdf>

⁴ Wales Bill, Hansard – Report: 2nd sitting, House of Lords, 10 January 2017: <http://bit.ly/20luatl>

⁵ The Economic Value of Outbound Travel to the UK Economy - <https://www.abta.com/sites/default/files/media/document/uploads/The%20economic%20value%20of%20outbound%20travel%20to%20the%20UK%20economy.pdf>

⁶ Ibid

⁷ Deloitte / Oxford Economics report, Tourism: jobs and growth – the economic contribution of the tourism economy to the UK - November 2013.

an important opportunity to enhance Wales' international connectivity, benefitting Welsh tourism and helping to establish new direct trade and business links.

4. ABTA's response on the devolution of APD to Wales

- 4.1. The 2014 Silk Commission acknowledged the benefits of APD devolution to Wales, recommending that APD be devolved for direct long-haul flights.
- 4.2. APD has already been devolved – to varying degrees – to other parts of the UK, including Northern Ireland and Scotland. Long-haul APD was devolved to the Northern Ireland Assembly in 2013, with the UK government recognising the unique competitive circumstances resulting from the land border with the Republic of Ireland. Full tax raising powers over APD were devolved to the Scottish Parliament, as part of the Scotland Act, in 2015. However, the Scottish Government is yet to fully implement these powers, owing to a dispute around the tax status of airports within the Highlands and Islands.
- 4.3. Evidence has shown that passengers tend to follow airlines and will cross the border for cheaper flights, as have been demonstrated in the island of Ireland and Dutch/Germany cases. Although tax is a significant factor for passengers to switch departure airports, the development of new routes and increased consumer choice, which is interrelated - as airlines make decision on route viability connected to increased margins available - is also significant. For example, in the Netherlands, we saw the redistribution of passenger numbers from airports in the Netherlands to neighbouring airports in Belgium or Germany to take advantage of lower airfares, following the introduction of aviation tax by the Dutch Government. Similarly in Northern Ireland, although not the only factor, there is compelling evidence that comparative cost is a significant factor in Northern Irish passengers travelling from airports in the Republic of Ireland (increased by 43% in 2016) rather than from airports in Northern Ireland.⁸ A recent analysis commissioned by Airlines UK showed that APD represents on average around 16% of ticket prices for passengers flying to short-haul destinations, and 18% for long-haul destinations.⁹
- 4.4. Airlines have always been vocal about the opportunity to boost connectivity through reductions in APD. Qatar Airways in 2018 introduced a new long-haul service from Cardiff Airport to Doha – the first from Wales and the South West region of England. This shows the potential for Cardiff Airport to grow as an international airport, particularly given its large runway, which can accommodate the largest aircraft. The Welsh Government's commitment to scrap APD on long-haul flights have seen airlines committing to boosting connectivity from Wales, leading to further investment and growth, increasing passenger numbers and boosting tourism.
- 4.5. Many airlines have cited APD as a factor in planning for future route development and growth from the regions of the UK, as the tax erodes profitability. The Northpoint report commissioned by the Welsh Government projected that a 100% reduction in APD following devolution could lead to a near 50% increase in passengers by 2025, contributing nearly £4.6 billion to Wales' GVA.¹⁰

⁸ Northern Ireland Air Passenger Flow to end June 2017: <https://www.nisra.gov.uk/publications/northern-ireland-air-passenger-flow-publications>

⁹ The Impact Of Air Passenger Duty On Airline Route Economics, A report prepared for Airlines UK, September 2018: <http://airlinesuk.org/wp-content/uploads/2018/09/The-Impact-of-Air-Passenger-Duty-on-Airline-Route-Economics-4.pdf>

¹⁰ Northpoint, Devolution of Air Passenger Duty to Wales, 2017.

- 4.6. ABTA recognises the concerns expressed relating to the impact of devolution of APD to Wales on the South West region of England, and in particular Bristol Airport, which attracted 7.2 million passengers in 2017. Furthermore and as demonstrated in paragraph 4.3 above, the lack of a UK-wide approach to APD risks market distortion and the redistribution of passengers within the UK.
- 4.7. However, given that APD has been devolved to Northern Ireland and Scotland, it is difficult to continue to argue against APD devolution to Wales. Although ABTA is supportive of APD devolution to Welsh National Assembly, we urge the government to urgently undertake a long-term review of aviation taxation across the UK. ABTA also notes the Northpoint report commissioned by the Welsh government, which found that given the greater density of traffic at Bristol of most routes served and the higher average fares it generates, Bristol Airport was not expected to lose any routes or any material frequency from its current network.¹¹

5. Conclusion

- 5.1. As noted above, the UK has one of the highest air travel taxes anywhere in the world, making it a less attractive destination to visit, trade with, and invest in than many of our global competitors including Germany and France. It also makes holidays more expensive for families.
- 5.2. Pan-European air tax analysis, carried out by the A Fair Tax on Flying (AFTOF) campaign shows that passengers flying from a UK airport pay, on average, five times more in passenger departure taxes than in those European countries that levy an equivalent tax. Only four other European countries levy a comparable tax (Austria, France, Germany and Italy), none of which comes close to the cost of APD.
- 5.3. Last year ABTA jointly commissioned a new report on Scotland's air connectivity with Airlines UK, which found that Scotland had the highest air passenger tax when compared to 10 similar sized countries, only two of which levied APD and at a much lower rate than Scotland. The report also showed that Scotland could boost its air connectivity, particularly direct long-haul connectivity, where it is seriously lagging in terms of the destinations served, should it adopt similar taxation regimes in the 10 countries assessed for the report.¹² We believe that similar analysis should be carried out for Wales where, we believe, additional connectivity would flow from cutting or abolishing APD with the resultant economic benefits that flow from that.
- 5.4. Finally, we urge that the Government undertake a wider review of aviation taxation across the UK to enhance international connectivity and to ensure that UK aviation remains globally competitive as we prepare to leave the EU.

Thank you for taking our comments into consideration. ABTA would be happy to provide any further assistance that Welsh Affairs Committee may require regarding the devolution of APD to the Welsh National Assembly.

Further information

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¹¹ Ibid

¹² Reaching Out to the World – How Scotland's Aviation Connectivity Compares, Sept 2017