

APD Discussion Paper
Energy and Transport Tax Team
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ

8 September 2015

Supporting English Regional Airports from the Impacts of Air Passenger Duty Devolution

Tourism Alliance Submission

1. Introduction

The Tourism Alliance was established in 2001 as the voice of the UK tourism industry. It comprises 55 tourism industry associations that together represent some 200,000 business of all sizes throughout the UK. The Tourism Alliance's mandate is to work with Government on issues relevant to the growth and development of tourism and its contribution to the economy. It is therefore responding to this discussion paper in that capacity. A list of member organisations is included as Appendix 1.

2. Tourism is a significant export earner

Inbound tourism is the UK's seventh largest export earner and second largest service sector export earner after Financial Services. The industry generates £24bn per annum in foreign revenue which supports almost 450,000 jobs and provides the basis for the UK having one of the world's leading aviation industries.

More importantly, over the period of the recession, tourism has been one of the UK's fastest growing export industries, with revenue increasing by 26%. This led the Office for national Statistics to describe the UK tourism industry as:

“one of the industries which has helped support the UK economy since the economic downturn in 2008”

Of particular relevance is that the majority of inbound visitors to the UK (73%) arrive by air and that these visitors spend considerably more per visit in the UK than those arriving by sea or through the Channel Tunnel, on average around £738 per person compared to

3. Air Passenger Duty has a major impact on the UK's competitiveness as an international tourism destination

Despite the substantial contribution that tourism makes to the economy, APD is a significant barrier to growth. The extent of that barrier is highlighted by the World Economic Forum's 2015 Travel & Tourism Competitiveness Report which, while placing the UK as the 5th most competitive tourism destination overall, ranks the UK as the least competitive country in the world for aviation taxation due to APD.

By comparison, no aviation tax is levied in 22 out of 28 other EU countries and the UK charges an average of five times more than those EU countries that still levy such a tax.

This lack of competitiveness on aviation taxation is having a detrimental impact on the UK's ability to maintain its share of international tourism with the UK's share of outbound tourism decreasing in 17 of the UK's top 20 source markets last year.

While the Treasury has recognised this fact by making a number of welcome reforms to APD on long-haul travel and for passengers with children, it needs to be recognised that the overall level of APD continues to increase.

Research by PwC in 2013 showed that significantly reducing or abolishing APD would provide an immediate and lasting boost to UK economic growth and be revenue neutral for the Exchequer. As an example, abolishing APD would:

- Boost UK GDP by 0.46% in year one
- Create almost 6,000 extra jobs in the UK
- Generate an additional £500m (net benefit) in the first year through increased revenue from other taxation

4. The reduction in APD for Scotland will distort the UK tourism market

Recognising the substantial economic benefits that tourism delivers, the Scottish Parliament has committed to reduce APD by 50% by the end of the next parliament (commencing in 2018), followed by the eventual abolition of the tax as soon as such a move becomes affordable. Similarly, the Welsh Assembly has said that it too would abolish APD if the power to set its own rate was devolved, as is currently being considered by Government.

If similar cuts are not applied across the rest of the country, the UK's tourism market will become distorted and airports and tourism destinations will be rendered less competitive. Lower rates of APD in Scotland and Wales will also encourage airlines to take their business away from airports resulting in a shift in tourism spend away from regions in other parts of the UK. This is contrary to the Government's Five Point Plan for Tourism which focuses on spreading the benefits of tourism right across the country.

This problem is highlighted in HMRC's 2012 document *Modelling the Effects of Price Differentials at UK Airports*. It stated that in the event of a price reduction equivalent to the full value of APD at Scottish airports, total passenger numbers at airports in England would be impacted immediately (taken from a 2014 baseline) – for example, the paper predicted that

passenger numbers at Newcastle airport would be nearly 10% lower, whilst at Manchester Airport passenger numbers would be around 2.7% lower.

5. A decision on APD in England needs to be made by the end of 2015

The Prime Minister and Chancellor of the Exchequer are on record saying that they will not allow England's airports and regions to be adversely impacted by the devolution of APD. The tourism industry welcomes this reassurance and the Government's current review of options to mitigate the impact of APD devolution on England.

A decision on what Government intends to do needs to be made by the end of 2015 as the Scotland Bill is due to enter the statute book early next year, meaning that the Scottish Government is in a position to reduce APD within the next 24-36 months (it has said that it will begin this process in 2018). This means that the tourism industry, from the airlines and destinations, through to the hotels and attractions, as well as VisitBritain and VisitEngland, need certainty on the make-up of the tax regime impacting their business as soon as possible so they can plan their investment and marketing activities.

To this end the Tourism Alliance requests that the Government undertakes an urgent review of the impacts of APD on the UK tourism industry and the wider economy with a view to significantly reducing, or abolishing APD altogether in the life of this Parliament.

6. Any APD reductions need to be replicated across the UK

The Tourism Industry's view is that any reductions in APD made in Scotland need to be immediately replicated across the rest of the UK so that there is a level playing field whereby no region is at a competitive disadvantage.

Not only would this provide a level playing field in the internal market, it would mean that for the first time since the introduction of APD, the UK tourism industry would be operating on a level playing field when competing for international visitors in the global market. Considering the size and importance of the UK tourism industry to the economy, doing so cannot help but increase the UK's export earnings from tourism and create thousands of new jobs throughout the country.

In terms of alternative options, the Tourism Alliance is opposed to the Government interfering in the market by setting different regional APD rates. It could be argued that giving Local Authorities the ability to lower the rate of APD in their area could introduce an element of competition into the market. However, we believe that there are significant risks associated that this approach could cause significant problems to the tourism industry by creating more complex and broader distortions that would be counter to the Government's goal of spreading the benefits of tourism throughout the UK. As such, we do not advocate this approach.

7. Summary

Inbound tourism is one of the success stories of the UK economy, yet it is the only industry where the Government imposes a tax on exports. This does simply does not make economic sense and it is internationally recognised that

this tax is having a considerable detrimental impact on the UK's position in the global market.

With Scotland poised to half the rate of APD for passengers using its airports, the current APD regime is unsustainable and the Government needs to take urgent measures to ensure that there is a level playing field in the UK market. Failure to do so will see airports detrimentally impacted in the same way that Belfast Airport was when the Irish Government reduced APD.

The only way to maintain a level playing field is to reduce APD across the rest of the UK to match rates in Scotland.

Thank you for the opportunity to provide comment on this issue. If you have any queries regarding the size and value of the tourism industry to the UK economy or the impact of APD on the tourism industry, please do not hesitate to contact me.

A handwritten signature in black ink, appearing to read 'Kurt Janson', with a long horizontal line extending to the right.

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Appendix 1 Tourism Alliance Members

ABTA - The Travel Association
Airport Operators Association
ALMR
ALVA
ANTOR
Association for Tourism in Higher Education
BACTA
BALPPA
Bed & Breakfast Association
British Beer & Pub Association
British Destinations
British Educational Travel Association
British Holiday & Home Parks Association
British Hospitality Association
British Marine Federation
Business Visits & Events Partnership
Camping & Caravanning Club
Churches Visitor and Tourism Association
Confederation of Passenger Transport
Country Land and Business Association
Cumbria Tourism
EASCO
English UK
European Holiday Home Association
European Tour Operators Association
Experience Nottinghamshire
Family Holiday Association
Farm Stay UK
Group Travel Business Forum
Heritage Railway Association
Historic Houses Association
Historic Royal Palaces
Institute of Tourist Guiding
Liverpool City Region LEP
Marketing Manchester
National Caravan Council
National Trust
New Forest Destination Partnership
Outdoor Industries Association
Premier Cottages
Resort Development Organisation
South West Tourism Alliance
The Caravan Club
The Tourism Alliance Brighton and Hove
The Tourism Society
Tourism For All
Tourism South East
UKInbound
Visit Cornwall
Visit Kent
Visit Wiltshire
Welcome to Yorkshire
Wyndham Worldwide

Observers

Local Government Association
VisitBritain
VisitEngland