



# Aviation tax reform: consultation

Consultation response by The Consumer Council

11 June 2021

## 1. Introduction

- 1.1 The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (Northern Ireland) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland (NI). The Consumer Council has specific statutory duties in relation to energy, postal services, transport, and water and sewerage. These include considering consumer complaints and enquiries, carrying out research, and educating and informing consumers.
- 1.2 The Consumer Council has been designated to handle passenger complaints made under Regulation (EC) No 1107/2010 (the Access to Air Travel Regulation) relating to an airport in NI or a flight departing from an airport in NI by the Civil Aviation (Access to Air Travel for Disabled Persons and Persons with Reduced Mobility) Regulations 2007 (SI 2007/1895). The Consumer Council also handles complaints made under Regulation (EC) No 261/2004 concerning flight delays, cancellations and instances of denied boarding.
- 1.3 The Consumer Council uses a set of eight core principles that are commonly used by consumer organisations for working out how particular issues or policies are likely to affect consumers. These are:



- 1.4 The Consumer Council welcomes the opportunity to respond to HM Treasury Aviation tax reform: consultation.

## 2. Summary and recommendations

- We welcome and support the UK Government’s commitment to reduce domestic APD.
- NI is unique within the UK in its reliance on aviation for economic and societal connectivity.
- Any funds lost to HM Treasury from any reduction in APD should not adversely impact the block grant to NI.
- The benefit from a reduction in APD should be passed fully to consumers in reduced ticket prices.
- The option of banding is preferable to the return leg exemption option.
- NI residents should be exempt from a Frequent Flyer Levy for any flights taken from, or to other UK or Republic of Ireland airports.

## 3. The government’s initial policy position

- 3.1 We welcome and support the government’s initial policy position that in order to support Union and domestic connectivity following the UK’s departure from the EU, the effective rate of APD on domestic flights should be reduced.

### NI’s unique geographical location in the UK

- 3.2 NI, unlike other UK regions, has no road or rail links with the rest of the UK. As such, it is uniquely dependent both economically and socially on aviation which is a relatively expensive form of travel. The Consumer Council believes that APD disproportionately impacts on NI consumers due to our dependency on air travel when travelling within the UK.
- 3.3 Chapter 2 paragraph 2.2 of the consultation document highlights the importance of domestic air connectivity within the UK. By promoting regional connectivity, the Consumer Principles of ‘Access’ and ‘Choice’ are being addressed in regions where consumers struggle to realise the full benefits of modern air travel. For NI, connectivity relies on the cost and frequency of flights into Great Britain (GB) and the access that NI has to GB airports that enable connections for onward international travel.
- 3.4 The Union Connectivity Review – Interim Report – March 2021 recognises that the air routes between NI and GB are particularly critical for capacity and resilience.<sup>1</sup> In summarising stakeholder views, the interim report (p46) also stated that ‘Air corridors to NI were raised by all stakeholders and the issue of

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<sup>1</sup> [Union Connectivity Review Interim Report – March 2021 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

Air Passenger Duty and its imposition on both legs of domestic flights was widely raised as an economic barrier, particularly in Scotland and Northern Ireland’.

- 3.5 Aviation plays an important role in supporting NI’s economy. A report considering improving NI’s aviation connectivity found that aviation connectivity in NI in 2017 was estimated to be less than half that enjoyed by Republic of Ireland residents and higher than in just two of the other eight benchmark countries.<sup>2</sup> The report also evidenced that:
- In 2017, there were nearly 2.7 million visitors to NI—about 80% of whom arrived by air.
  - Over half the trips to NI in 2017 (1.4 million) were made by GB residents.
  - Visitors to NI in 2017 spent £656 million in the domestic economy. This spending equates to £1 in every £106 of turnover generated in NI that year.
  - NI’s GDP was estimated to be 0.5 percent higher in 2017 than it would have been if connectivity had stayed at its 2004 level.
- 3.6 Analysis of NI passenger flow statistics for 2019 shows that upwards of 72% of all flights to and from NI airports are via other UK airports.<sup>3 4</sup> As many of these flights to and from NI are for the purpose of making an onward connection to a flight to or from an international destination NI consumers effectively pay APD twice, as there is no other practical means of travel between NI and GB destinations.
- 3.7 The Consumer Council welcomes that the UK government will continue to engage with the NI executive through the established Technical Working Group to consider the legal and operational challenges to changing short-haul APD for NI.
- 3.8 The Consumer Council seeks assurance that any funds lost to HM Treasury from any reduction in APD would not adversely impact the block grant to NI. We are conscious that previously a proposed reduction in APD has raised implications for NI’s block grant. This was addressed in a 2019 report which stated ‘Extending the current discounting of APD in NI to Band A flights would likely be relatively effective as a means of increasing Northern Ireland’s aviation connectivity. However, such a policy is unlikely to deliver value for money given the likely loss of revenue through the block grant and the implicit subsidy that will be delivered to a large number of already commercially viable routes. A more targeted

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<sup>2</sup> [Improving Northern Ireland’s Aviation Connectivity \(economy-ni.gov.uk\)](https://economy-ni.gov.uk) July 2019

<sup>3</sup> The Consumer Council analysis of CAA statistics

<sup>4</sup> As expected and evidenced in CAA statistics there was a sharp decline in passenger numbers during 2020 due to the Covid-19 pandemic, therefore we have not used statistics from this period as it would not be reflective of the longer term.

discount strategy could help to ameliorate these issues but would face much greater issues with State Aid compliance.<sup>5</sup>

#### Fall in domestic connectivity in NI

- 3.9 As the consultation document states at paragraph 1.8, there has been a fall in domestic connectivity since 2005, including prior to Covid-19. This has been evidenced in NI. As an example in 2017 British Airways, reduced its winter schedule from Belfast to Heathrow from six daily flights to four. In March 2019 Ryanair announced a reduction in its winter schedule on its Belfast to Stansted route from three and two times daily to twice a week.<sup>6</sup> In April 2019 it announced a reduction on the same route for its summer schedule from two and three flights a day, to two a week.<sup>7</sup>

#### Competition for NI airports

- 3.10 Having no road or rail link with the rest of the UK, NI airports are competing with ferry companies and crucially Dublin Airport, for passengers. This is a challenge unique to NI.
- 3.11 NI airports are at a disadvantage when competing with Dublin airport because of the requirement on passengers to pay APD when leaving NI or entering from another UK airport. Passengers through Dublin airport are not required to pay APD or a similar tax. Therefore, NI airports are competitively disadvantaged against Dublin, limiting their ability to provide connected flights on a commercial basis. The impact of this issue was highlighted in a 2019 report by Oxford Economics for The Department for the Economy stating that 'net movement across the border has proved to be a significant competitive drain on Northern Ireland's airports'.<sup>8</sup> The decision by Ryanair in 2019 to reduce its summer schedule from Belfast International to Stansted, referred to at 3.9 would, on the face of it, appear to be a commercial decision as it cited the reason being the "weak UK market" and UK APD.

#### Consumer benefit from reduced APD

- 3.12 The Consumer Council believes that any benefit from a reduction in APD should be passed fully to consumers in reduced ticket prices to ensure maximum effect for union connectivity for NI. Encouraging as many airlines as possible to operate

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<sup>5</sup> [Improving Northern Ireland's Aviation Connectivity \(economy-ni.gov.uk\)](https://www.economy-ni.gov.uk/consultations/consultation-aviation-connectivity) July 2019

<sup>6</sup> [www.bbc.co.uk/news/uk-northern-ireland-47481843](https://www.bbc.co.uk/news/uk-northern-ireland-47481843)

<sup>7</sup> [www.bbc.co.uk/news/uk-northern-ireland-47841028](https://www.bbc.co.uk/news/uk-northern-ireland-47841028)

<sup>8</sup> [Improving Northern Ireland's Aviation Connectivity \(economy-ni.gov.uk\)](https://www.economy-ni.gov.uk/consultations/consultation-aviation-connectivity), 2019

from NI airports will promote competition and therefore incentivise airlines to pass on the benefits of any reduction of APD.

#### Impact on emissions, economy and tourism

3.13 Regarding impact on emissions, economy and tourism, reducing domestic APD provides opportunities to:

- Possibly attract more UK based tourism into NI, therefore boosting the local economy. (It is important to note that greenhouse gas emissions from domestic flights make up less than 1% of total domestic transport emissions.<sup>9</sup>).
- Make NI more attractive to investors if connectivity with the rest of the UK is less costly.

#### **4. A return leg exemption**

4.1 The Consumer Council wishes to reiterate the view that we advocate a reduction of APD for NI consumers. However, this comes with the caveat that any funds lost to HM Treasury from a reduction in APD would not adversely impact the block grant to NI. With regards to how a reduction in APD is administered we take no firm view but wish to make the following points, primarily based on our significant experience of consumers in NI.

4.2 We recognise the difficulties in administering a return leg exemption as highlighted in the consultation document. Whilst a return leg exemption was in operation from 1994 for domestic flights and removed in 2001 we recognise that with modern ticketing practices, reducing the likelihood of purchasing a return ticket there may be difficulties in determining whether or not a passenger is returning on a single or return ticket.

4.3 Furthermore, this exemption would not benefit passengers travelling on a single ticket. This is of concern in NI because of our unique reliance on aviation to maintain business, work, educational and social connectivity as opposed to primarily leisure travel as in most parts of GB. For example, university students travelling from an airport in NI to a university in GB, or NI residents travelling for medium or long term work in GB will be more likely to purchase a single ticket and therefore would not receive the benefit of a return leg exemption.

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<sup>9</sup> [Union Connectivity Review Interim Report – March 2021 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

4.4 If the administration procedures are overly complex there may be more scope for airlines to fail to pass on the benefit of a reduction in APD to NI consumers who are disproportionately impacted by APD.

## **5. A new band for domestic flights**

5.1 A new domestic rate has the benefit of being simpler to administer and covers all flights not just return journeys. This option would benefit all consumers on all domestic flights.

## **6. Frequent Flyer Levy**

6.1 The Consumer Council recognises and supports the need to tackle the adverse environmental impacts of air travel. However, a Frequent Flyer Levy could compromise the Consumer Principle of fairness for NI consumers. As outlined in section 2 of this response domestic flights are often a necessity not a luxury, for NI consumers. We also recognise as mentioned in the consultation document the complexities involved in administering a Frequent Flyer Levy which would be levied on the individual compared to APD which is levied on the airline. Furthermore, passengers who fly more already pay more through APD.

6.2 Therefore, we advocate, in the event of a Frequent Flyer Levy being implemented, for an exemption for NI residents for any flights taken from or to other UK or Republic of Ireland airports.

## **7. Conclusion**

7.1 In our response to this consultation we have focused on the regional significance to NI in relation to APD. A reduction in APD would be welcome for NI consumers.

7.2 If you require more information please contact Hannah Brown, Senior Policy Officer (Transport) on 029 90251600 or at [Hannah.Brown@consumercouncil.org.uk](mailto:Hannah.Brown@consumercouncil.org.uk).



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