



Northern Ireland
Assembly

Committee for Enterprise, Trade and
Investment

OFFICIAL REPORT (Hansard)

Economic Assessment of the Impact of Air Passenger Duty:
DETI and UU Economic Policy Unit

24 March 2015

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)
Mr Steven Agnew
Mr Gordon Dunne
Mr Paul Frew
Mr Paul Givan
Mr William Humphrey
Mr Fearghal McKinney
Mr Máirtín Ó Muilleoir

Witnesses:

Mr Diarmuid McLean	Department of Enterprise, Trade and Investment
Mr John Simms	Department of Enterprise, Trade and Investment
Mr Gareth Hetherington	Ulster University

The Chairperson (Mr McGlone): With us today are Mr Diarmuid McLean, head of economic policy division; Mr John Simms, head of the DETI access and agrifood branch; and Mr Gareth Hetherington, associate director of the economic policy unit at Ulster University. You are all very welcome, and I thank you very much for being with us. You have been here before — some of you have, anyway — so you know how this operates. It is up to you to make an opening statement, and then we will move on to questions from members.

Mr Diarmuid McLean (Department of Enterprise, Trade and Investment): Good morning, and thank you for the opportunity to brief the Committee on the recent report on air passenger duty (APD).

The Committee will be aware that, as part of its economic development role, DETI works with our airports and airlines to improve air access and connectivity. We work closely with Invest Northern Ireland and Tourism Ireland to provide support in a number of ways. Where the specific roles are concerned, broadly speaking, DETI has lead responsibility for air access policy; Invest Northern Ireland develops and maintains client management arrangements with airlines and airports; and Tourism Ireland seeks to exploit marketing opportunities presented by new and existing access from markets with inbound tourism potential.

One of the policy areas that the Department considered was an assessment of the economic impact of changes in airfares on the Northern Ireland economy and, in particular, changes to air passenger duty rates. APD is a subject about which there has been a lot of discussion, but an evidence-based assessment of the economic impact on the local Northern Ireland economy has been missing. Therefore, in conjunction with the Department of Finance and Personnel, the Department

commissioned the Northern Ireland Centre for Economic Policy in the University of Ulster to carry out that study. I am accompanied today by Gareth Hetherington from NICEP, who can address any detailed or technical questions the Committee may have about the report itself.

The report is comprehensive and detailed, and it might be useful if I provided the Committee with a high-level summary of its findings and conclusions. The central conclusion is that, when the cost to the public finances for Northern Ireland is taken into consideration, APD is not thought to be a strong economic development tool. The report identifies that the full abolition of APD would be unlikely to deliver a positive net benefit to the local economy, and while there would potentially be a small positive economic impact resulting from a reduction, that depends on the cost to the public finances, which has a degree of uncertainty.

It is important to be clear that any reduction in APD in Northern Ireland alone would have to be paid from Northern Ireland public finances. The cost that Treasury would impose on the Northern Ireland block grant would be subject to negotiation and therefore has a degree of uncertainty. The research has shown that, if the cost imposed was in line with current HMRC estimates, the economic benefits would be negative.

The rationale for seeking the devolution and reduction of APD depends on the objective as an economic development tool. While a 50% reduction is shown to have a small net economic benefit, other economic development tools, such as corporation tax, may deliver greater economic benefits. As a lever to grow the tourism sector, reducing APD is a very blunt intervention, and one of the biggest impacts of any reduction would be an increase in outbound tourism. The NICEP report shows that, in the 50% reduction and abolition scenarios, the net economic impact on the tourism sector is negative, as the increase in outbound tourism is much greater than the number of additional inbound visitors.

The report suggests that more targeted interventions, such as a locally focused air route development fund, may be a more effective air route development tool. A reduction in APD has a very high level of dead weight, as the reduction must, by necessity, be applied to all passengers, not just the additional passengers. In addition, any reduction in APD would have to be applied to all destinations, while a route development fund could be targeted at business destinations and routes with inbound tourism potential.

Until last year, EU rules effectively prohibited the use of air route development funds. However, the Commission has now changed the state aid rules to permit the use of state route development funds, albeit within strict criteria. The Department for Transport in London has been engaging with the Commission to develop and obtain approval for a UK regional air connectivity fund. Here in Northern Ireland, the Department has encouraged our airports to make route bids to that fund. We will, of course, monitor the outworkings of the fund in the context of any potential support that can be accrued to our local airports. In parallel, our Minister has asked officials to consider the potential for a Northern Ireland-specific air route development fund that is focused on supporting routes with business and inbound tourism potential.

John, Gareth and I will be happy to try to answer any questions that you or the Committee may have on this report on APD.

The Chairperson (Mr McGlone): Thanks very much for that. I read through the report last night. I will just pick up on your last point. Could you expand on the fund that you are referring to and on the Minister's thinking about a specific fund for the North? Presumably, it would come out of the block grant, too. In other words, what size is that fund compared with what the cost to the block grant could be? I see APD has a potential price tag of £55 million; that is referred to in evidence we received from the international airport people. How does one square with the other? Although some people challenge your figure, what is the level of investment from this fund as opposed to how much of a cost you say APD could be to the block grant?

Mr McLean: At this stage, as I say, we are merely looking at the options alongside the process that has been taken forward at a national level through the UK air route development fund. There was a local air route development fund back in 2002, and £4 million was provided through that. At this stage, if there was to be any fund in Northern Ireland, it would be subject to the Minister making a bid for funding from the block grant. We would have to look at the size of that fund, bearing in mind that we would still have to comply with EU rules on funding. The maximum support that could be provided would be up to 50% of published airport charges.

The Chairperson (Mr McGlone): That is what I was coming to. What was that £4 million or whatever might be in the growth fund used for?

Mr McLean: John maybe has more knowledge of the previous fund.

Mr John Simms (Department of Enterprise, Trade and Investment): The focus of our air route development fund would be on the areas where we are not served. Where the difference in cost is concerned, APD is applied across all the 2,000-mile band, so the people who will fly anyway will get the reduction. We would focus any air route development fund on markets and cities where we are not served; for example, Germany, Scandinavia, Milan, Brussels and Madrid. It would be a focused intervention. As Diarmuid said, it would focus on inbound tourism and business potential.

The EU rules apply, so it is 50% of landing charges. Effectively, it is operating it. You can provide operating aid to help the route perform in the first three years, after which it must be sustainable. That is where you get the difference in figures. The rate of APD for all the 2,000-mile band means that you apply it to everyone, whether they are flying or not, whereas the fund gives us the ability to focus our efforts.

The Chairperson (Mr McGlone): Does that mean that it is another subsidy? I know that Europe does not like to hear of subsidies.

Mr Simms: It is permitted in this case. When we had the previous route development fund, no state aid rules applied to route funds. The European Union then clamped down on that, and, basically, nobody could do a route fund. It now considers it important that Europe be connected, so it has permitted the use of route development funds again. However, in doing that, it has brought in quite strict criteria. You can, however, provide operating aid to airports and airlines.

There is a caveat for Northern Ireland. It applies to three million passengers and below, which means that, if we had a fund, Belfast City Airport and City of Derry Airport could apply and receive aid. Belfast International Airport, however, falls into the three million to five million passenger category, and those routes would be supported in exceptional circumstances. We think Northern Ireland has exceptional circumstances. We are an island off an island off mainland Europe. We cannot access HS2, and we cannot access the European land-based route network. One of our arguments to the Commission will be that all our airports must be included in this: Belfast International Airport, Belfast City Airport and City of Derry Airport.

Mr McLean: While introducing the air connectivity fund, the Department for Transport in London has a parallel process for seeking EU clearance for the fund. So, in considering developing a local air route development fund in Northern Ireland, we would have to seek EU clearance for its application.

The Chairperson (Mr McGlone): This might be thinking a wee bit outside the box, and we have heard all the arguments about APD, but has somebody somewhere taken a strategic decision and said, "Ach, sure they are coming in through Dublin anyway. Let them carry the can for that and let them attract the visitors"? Our main challenge is to get them to come on up the road when they come into Dublin. That would not cost us £55 million; it would cost us a lot less if we put more of our efforts into promoting our tourism produce and all that type of stuff. Could that be a factor? It is just as handy for many people who live in parts of County Down and parts of County Armagh and places like that to go down the road to Dublin for their flights. There is a concern, which you expressed, that all that reducing or abolishing APD will do is encourage more people to fly out of the North rather than into it. Has that been a factor?

Mr McLean: Obviously, local air access is important to economic development. Our Minister has recognised that. Connectivity from Northern Ireland to national hubs and international locations is important for business, and work has shown that those direct connections are helpful in attracting FDI-type activities and inbound tourism. There is a greater conversion rate in getting inbound tourism where there is a direct connection into Northern Ireland, as opposed to through Dublin. That does not mean to say that we do not recognise that there is significant traffic of tourists into Ireland. Tourism Ireland and the Northern Ireland Tourist Board will continue to work to try to ensure that we attract as many of those people as possible into Northern Ireland.

The other thing is that £1 billion worth of goods go out of Northern Ireland in air freight every year through Belfast International Airport. That air freight connectivity is important for businesses in Northern Ireland.

The Chairperson (Mr McGlone): You mentioned Belfast International Airport. Has any use been made more recently through the extension support fund that you mentioned for flights back and forward to that airport?

Mr McLean: Support has been provided through Tourism Ireland for marketing activities for a number of routes, the most recent of which was —

The Chairperson (Mr McGlone): No, I mean the fund that you were talking about that exists already.

Mr McLean: The air connectivity fund?

The Chairperson (Mr McGlone): Yes, the air connectivity fund.

Mr McLean: We have encouraged the local airports to apply to that. The closing date was —

Mr Simms: The Department for Transport will publish the list of routes from Northern Ireland at the end of March.

Mr McLean: The applications are in at this stage, but we have not been made aware of the routes that were successful in any bids that were made to the Department for Transport.

The Chairperson (Mr McGlone): Did you say that Belfast was not eligible for it?

Mr McLean: No.

Mr Simms: Belfast is eligible. There are two categories. The first is for three million passengers and below, and those are considered to be the smallest airports. If this was a Northern Ireland fund, we could approve the route and provide the finance. For airports with three million to five million passengers, the route has to be approved by the European Union.

The Chairperson (Mr McGlone): Does Belfast International Airport have three million to five million passengers?

Mr Simms: Yes, it has about four million passengers.

The Chairperson (Mr McGlone): Sorry, can you talk me through that again, please? The route has to be approved —

Mr Simms: You have to go to the European Commission to get exceptional circumstances approved. We consider Northern Ireland to have exceptional circumstances because of our location and the challenges that we have.

I want to add to something that Diarmuid said about Dublin. Dublin is important, in that it can provide routes that we cannot sustain from here, and it provides access. However, as Diarmuid said, direct access is always preferable. If there is leakage to Dublin Airport of people from here and if those people are flying, for example, to Germany or Scandinavia, that demonstrates to airlines that there is potential here. Again, that is part of the case that we would make for the route fund.

The Chairperson (Mr McGlone): You say that Belfast International Airport should be treated as an exceptional case. Coming to the next stage, what is being done to make the case for it to be treated as exceptional? Maybe that question is not for you; it might be for the Department.

Mr McLean: The Minister has asked us to look in to those issues, and we will be doing so over the coming months. At the end of the day, however, it is incumbent on us to put together the business case and the framework for such a fund and to make the case to Brussels for why we believe we can get approval.

The Chairperson (Mr McGlone): You are talking about making a business case for a specific fund for Northern Ireland.

Mr McLean: Yes, Chair.

The Chairperson (Mr McGlone): You are a wee bit ahead of me. What about making the business case for the fund that already exists and getting approval from Europe for it?

Mr McLean: No, that is for the Department for Transport. That is a UK-wide fund, and the Department for Transport has already put in a case to the European Union in parallel with running a call for proposals.

The Chairperson (Mr McGlone): For Belfast International Airport?

Mr McLean: No, for approval for the UK as a whole. It is for Belfast International Airport, as part of the bidding to that fund, to make the case why it should be treated as special in any proposals that come forward.

The Chairperson (Mr McGlone): I am trying to tie down what has been done between the Department and Belfast International Airport to make sure that that is being dealt with in that way. In other words, who is tying up the loose ends to make sure that that is done? Is it just left to the airport to do all that?

Mr Simms: No, we met all the airports and encouraged them to apply to the UK fund with airlines, and we offered our support for that. One of the issues that Belfast International Airport may have found — you may be getting feedback about this — is that, because of the way that the UK fund works at the minute, the airlines lead on this: the airports support the airlines. We have offered our support to all the airports on this. We need to see how the UK fund works for Northern Ireland and whether there have been issues. For example, if Belfast International Airport has found it hard to partner with airlines, we need to look at the lessons from that and see how we can do this for Northern Ireland. We have identified areas where we could make a Northern Ireland fund work better.

Our view of the Northern Ireland fund is that it has to apply to all airports: Belfast International Airport, Belfast City Airport and City of Derry Airport. It applies to all of them equally. It will not be a silver bullet. A route fund does not underwrite the costs of a route for three years; it provides 50% of airport charges. That can be enough to incentivise some routes to the places that we are looking to go to. However, it is not a blank cheque, and it is not easy money. There are European rules for it. We will need to see how to make the fund work for Northern Ireland and our circumstances.

Mr Dunne: A number of the issues have been addressed.

In your report, you state that:

"Reducing APD increases the number of passengers, however in order to achieve this increase in passenger numbers all passengers receive a tax reduction".

Would significantly increasing the number of passengers not be a positive aspect to this? Is that not what we are about?

Mr McLean: I will ask Gareth, who led on the report, to comment.

Mr Gareth Hetherington (Ulster University): Thank you, Diarmuid.

One of the things that we clearly recognise in the report is the quite significant increase in passenger numbers that are forecast as a result of either a reduction in or abolition of APD. The increase in passenger numbers would be approximately 8% if we halved APD and approximately 12% if we abolished it. The rate of additional passengers would decrease over time.

The point that we were making was that, to generate that additional 8% of traffic, you need to give everybody a reduction in tax. So, the people who would be making the journey anyway would also benefit from a reduction in tax. Therefore, that brings into question the additionality argument, where you are giving a tax break to a significant number of people but are not going to change their behaviour, because they are going to do what they are doing anyway. Is it right to give approximately 90% of people a tax break to generate a change in behaviour in just 8% to 12% of people? That is the point that we were making.

Mr Dunne: Do you reckon that the increase would be around 8% to 12%? Is that the measure you have made of it?

Mr Hetherington: We worked with York Aviation on making passenger forecasts and on looking at the impact that a change in airfares would have. That is the estimate that was identified.

Mr Dunne: Did you come to the conclusion, then, that the economic benefits would be negative?

Mr Hetherington: If it was to be reduced to 50%, based on the baseline assumptions, the economic benefits would be only marginally positive. A number of risks are associated with the achievement of those benefits, which is why we used the wording saying that there is not "a strong case" for a reduction or abolition of APD. So, to answer your question, in some instances, there might be a marginal net benefit, but, in others, it would be a negative benefit.

Mr Dunne: The Chairman made the point well that we are competing with Dublin. The new road system is obviously a major factor and has improved access to Dublin for practically everybody in Northern Ireland. People are using it, so our other two airports need to be looking at incentives that they can add. Are you convinced that this is not an economic option even in that context?

Dublin has the ability to increase capacity even further. The city airport is highly successful and wants to increase its numbers and extend its runway, yet the international airport is 30 or 40 minutes away and is underutilised. There are major issues there that need to be addressed. Do you not see this as part of that?

Mr Hetherington: From the analysis, it is clear. I understand the airports' and airlines' position. They are the clear beneficiaries of growing passenger numbers and, obviously, revenues. There are two main issues. The first is that generating that additional traffic has a significant impact on the block grant. From an airport perspective, they are interested only in growing passenger numbers. When thinking about the wider economic impact, we have to look at where those passengers are from. Are they local people flying out, or are we attracting foreigners in?

The other important dimension is to grow business traffic to business destinations. We found that business passengers tend not to be that price-sensitive. A business person will make the journey, and APD will have little impact on the decision to do that. However, from a tourism perspective, the cost is more of an issue, understandably. A lower price is more attractive to local people flying out of Northern Ireland than to foreigners flying in.

Mr McLean: If I can just add to that, the information that we have had on Dublin Airport shows that the majority of the flights that people take out of it are to destinations that are not served by any of the airports in Northern Ireland, as opposed to going to it to go on a route that is already served from Northern Ireland.

Mr Dunne: I suppose that would be part of it. More generally, are landing charges part of what the competition is all about in these airports? Is that one of the major factors in being competitive?

Mr Hetherington: We did not look in our analysis at landing charges or competitiveness between airports in Northern Ireland or Dublin.

Mr Dunne: Is that your understanding?

Mr Simms: It is a complex area. Landing charges are applied at all airports, and, when an airport looks to attract an airline, it could waive landing charges in year 1 and discount them by 50% in year 2. They all do the same thing to get airlines in. Airports are limited in what they can do from that perspective.

Dublin is a European capital city and has a different economy to ours. There is population catchment, but then there are GDP figures. There are a lot of reasons why Dublin is more successful than Northern Ireland.

To come back to the leakage point, there are opportunities that we need to grasp. For example, there used to be flights from Northern Ireland to Canada; now, the airlines are ensconced in Dublin. The challenge is to get those airlines or even one airline to operate a flight from Northern Ireland. There

are opportunities there, but it is not just about landing charges; there is a raft of things. Ultimately, people will choose to fly from an airport for a number of reasons: where an airline flies to, car parking or a raft of things.

Mr Hetherington: To add to the point that was made and which Mr Simms raised as well, charges are an issue, and that is why an air route development fund would be important. However, the most important thing for an airline when it is making a decision about maintaining or establishing a route is demand. The attractiveness of Dublin relative to, say, Belfast is the very high demand for passenger traffic in Dublin or the Republic of Ireland. Demand is more important in ensuring the long-term sustainability of routes.

The Chairperson (Mr McGlone): An tUasal Ó Muilleoir. Máirtín.

Mr Ó Muilleoir: Go raibh maith agat, Patsy. Thank you, gentleman. I am sorry that I missed the start of your presentation.

We read the 104-page report with interest. I thought that the conclusion was not bold enough. Would I be right that the suggestion of having a specific air route incentive programme or development fund would really only be tinkering at the edges? The CEO of Belfast International Airport, Graham Keddie, the CEO of George Best Belfast City Airport, Brian Ambrose, the chair of NITB, Howard Hastings, and the CEO of Tourism Ireland, Niall Gibbons, have all said that air passenger duty is a brake on tourism. The airport in Dublin is doing magnificently well. If you had a specific air route development fund, would it lead to a step change in the numbers coming in?

Mr Simms: No, it would not be a step change. It will be focused on the destinations where we can make it stick: Germany, Scandinavia, Brussels, Milan and Madrid. We are already served in certain parts of Europe. We are well served in outbound holiday destinations, and that is not what it would be about at all. It would be a focused intervention. Likewise, it will not underwrite the costs of an air route for three years completely but will be part of the cost. It will be a partnership approach with the airport, the airline and Tourism Ireland working together to see how we can make it work. We are not looking to be Dublin; we are looking to have our share. The route fund provides targeted intervention.

The report states that, if we did not have to pay APD, we would have a 12% increase in passenger numbers and that would be to the benefit of £55 million to £60 million. However, with the way the Treasury works, we would have to pay for that, and if we have to pay for it —

Mr Ó Muilleoir: The reports suggests that negotiation would have to take place. It is not clear what the price would be if we did not have air passenger duty. Is that not correct?

Mr McLean: The last estimate from HMRC of APD for Northern Ireland was in the region of £75 million to £78 million. This report, which had a clearer focus on actual figures from Northern Ireland, estimated it at £55 million. Therefore, there is a slight difference in what the Treasury may estimate through its generalised approach.

Mr Ó Muilleoir: I suppose that my broader point is that it is not clear that the whole cost would fall on us.

Mr McLean: If the Executive sought the devolution of APD powers — when it came to waiving the international charges that are borne by the Northern Ireland Executive, unless —

Mr Ó Muilleoir: Despite what happened with long-haul flights, if those powers were transferred it is still not clear that all that would fall on us.

Mr McLean: That would be subject to negotiation with Treasury.

Mr Ó Muilleoir: Right; OK. My point is that the conclusion of the report is that all that cost would fall on us, and that is a matter for negotiation. APD is a classic tax that is great for London but not so good for Belfast. Do you agree?

The Chairperson (Mr McGlone): The Minister and the Minister of Finance have both said that they believe that APD is an unfair tax. I think that they have made that point to their counterparts in Whitehall.

Mr Ó Muilleoir: I suppose what I am saying is that we need the transfer of the power and that we then need to work out how to implement it.

Howard Hastings, the chair of NITB, said that when Dublin abolished APD they put one million extra onto their incoming passenger numbers in one year. Is that correct?

Mr Simms: That is what Ryanair committed to do. They said that, if the Irish Government got rid of APD, they would bring in a million passengers, or they said that they would have a million extra seats. It is about what you believe in the media. Was there an agreement with the Irish Government? We do not know, but Ryanair certainly made that plain.

I will clarify the Treasury numbers: the £55 million in the report is a Northern Ireland-accurate reflection of what APD would cost us. Treasury said that it would cost £78 million, and it would be about getting it down from that. When we devolved direct long-haul APD, the Treasury initially came back with a cost for Northern Ireland that did not make sense. We had only one route at that stage, which was Belfast to Newark, and there was only a certain proportion of the plane that travelled business class. Treasury gave us the UK average profile and told us that it would cost £5 million, and there had to be robust engagement between DFP and Treasury to say that that did not make sense from a Northern Ireland point of view. I understand that the tax take from Northern Ireland is now about £2 million.

When Treasury say that it will cost £78 million, it is on the basis of much more premium traffic and business travel in the UK. It will start from the basis of the UK average and what should apply to Northern Ireland. The engagement would be to get Treasury to come down in the numbers.

Mr Ó Muilleoir: To finish, we can rehearse that, although it is a matter of negotiation. For me, air route development programmes are just tinkering at the edges. We could focus on business, but what about tourism? If a flight comes, not from Frankfurt, the financial capital, but from Berlin, that will be good for tourism, and it is key to our economic development that we double the contribution of tourism. I do not feel that the programme will make the difference that we need.

I also disagree with the figures. Graham Keddie, CEO of Belfast International Airport, said that he will create a thousand jobs for every extra million passengers. The report downplays that and cuts that number significantly.

We should learn from Dublin. We are asking our airports to compete with one arm tied behind their back; the sooner the power is transferred and we can decide how it is used, the better. Thanks for coming in. It is a very useful discussion.

The Chairperson (Mr McGlone): Picking up on Máirtín's point, was an evaluation done of potentials that might arise from a reduction in corporation tax and the development of the economy? Was there an evaluation of the devolution of APD and how it might be used as a tool — even though it is just there — for supporting the growth of the economy? Was it taken in the context of the overall plan — if there is a plan — on corporation tax?

Mr McLean: I do not think that at the time —

Mr Hetherington: No. The growth of passenger forecasts is based on current trends and the increase that you would expect to see with a reduction in prices that has been seen in the past, as opposed to what would happen if other policy measures were introduced that may or may not increase business traffic.

The Chairperson (Mr McGlone): You made the point earlier that, for business travellers, APD is not a big issue.

Mr Simms: That is correct.

The Chairperson (Mr McGlone): On what do you base that?

Mr Hetherington: On the analysis that has been done on the sensitivity of different types of passengers to changes in price. A lot of research has been done to make that determination. Leisure travellers are much more price-sensitive than business travellers, and detailed modelling has been done to quantify that.

Mr Agnew: Thank you for the information so far. I want to drill into some of the aspects of the report. I am not sure whether it was mentioned in the context of a 100% or a 50% reduction in air passenger duty, but I think that you said that there would ultimately be more outbound than inbound passengers. When you are doing calculations, do you define outbound passengers negatively, as they are leaving, or is there a positive element of our citizens being able to travel?

Mr Hetherington: There are two aspects. In the first instance, outbound travellers are assumed to be people from Northern Ireland and the Republic of Ireland who are going overseas either for purposes of tourism or business. Both deliver significant benefits through job creation at airports and airlines. There is also a significant impact of foreign tourism in the local market in that people spend money before they go on holiday. Another important aspect of outbound traffic is its impact in helping to generate business. There are some benefits identified and included in the analysis of the economic impact of outbound business travel.

Mr Agnew: It is certainly not as simple as saying, "Inbound good, outbound bad".

Mr Hetherington: Correct.

Mr Agnew: In that regard, the overall benefit of an inbound passenger is higher, I assume.

Mr Hetherington: It is, yes. An outbound leisure traveller is a tourism import, so that is a negative. You want to attract more people, both tourists and business people. Business out is also good, but outbound tourism has social benefits; it makes Northern Ireland a nicer place to live. However, there is an economic cost to it.

Mr Agnew: The report also mentions that, by cutting air passenger duty, you, essentially, give a tax break to people who would travel anyway. Is that seen purely as a cost? If somebody is travelling here and has more money in their pockets, can they spend more in the local economy?

Mr Hetherington: In the analysis, from a tax perspective, we have included the estimated reduction to the block grant. We have also included what we call an income effect: if you are not taxed and do not have to pay the £13 on your flight out, you are better off to the tune of £13. The income effect benefit is also only included for people from Northern Ireland because, obviously, there are foreigners who would benefit from not having to pay APD, but that does not necessarily benefit the local economy. So, there is a positive aspect there too.

Mr Humphrey: Thank you very much, gentlemen, for your presentation. In your respective opinions, do you believe that corporation tax being devolved at the level being talked about is a game changer for air travel for Northern Ireland?

Mr McLean: In the longer term, corporation tax is seen as a key driver for increasing potential foreign direct investment into Northern Ireland and driving up private-sector jobs. On that corollary, we would expect to see some increase in business travel to and from Northern Ireland if there were direct linkages to the countries that were investing here.

Mr Hetherington: The important thing from an FDI perspective is that we have linkages to business destinations. Part of the thinking on the air route development fund is to develop business destination linkages.

Mr Humphrey: Do you see it purely as business?

Mr Hetherington: Do you mean corporation tax?

Mr Humphrey: No, the benefit that there would be to air travel from lower corporation tax.

Mr Hetherington: It would be primarily a business benefit.

Mr Humphrey: We have all been on flights to places like Tenerife where we largely see that the people who we are travelling out with are the people who we are travelling back with. I appreciate that many of those flights are package and chartered flights. On the point that you were making about filling the flights coming back from Amsterdam, Paris or wherever so that we get folk coming back as

tourists in Northern Ireland, I think that a Visit Britain statistic is that 21% of people travel because of music, and in this city we have a very vibrant music tradition. Over 50% of tourists are cultural tourists, and we have varied cultural traditions here that are now seen as a plus and not a weakness. That is a positive.

There is a difficulty in getting people to come to Northern Ireland. Many international flights, particularly to the European Union, are going to holiday destinations for our people to be the tourists. Is the key to filling flights or increasing the number of people on the return flight to Belfast not to sell Northern Ireland in a joined-up way? I know that the Minister is working hard. Take a flight to Germany, for instance. Many people come from the Germanic and Scandinavian countries to Northern Ireland for fishing. Should there be a joined-up assault — if I can use that word in a positive way — between Tourism Ireland, Tourism Northern Ireland and Invest Northern Ireland to get people to come here and to market this place as a tourist destination for niche markets? That will benefit places that are interested in fishing; other cities or regions will be interested in golf, for example.

Mr Simms: Take Germany, parts of Italy where we are not served or Scandinavia, for example: it is a given that a certain number of people on that plane will be Northern Ireland people flying out on holiday or on business. Sometimes, it does not take too many inbound tourists on a plane to make the economic impact argument for us. European visitors tend to spend £200, £300 or £400 on their trip. For a route to be successful, you have to have a certain proportion of the plane filled with Northern Ireland people. It is maximising the number of people coming in. When Tourism Ireland does cooperative marketing activity, it is based on the destination and making Northern Ireland attractive to people coming in.

We are looking to have a joined-up approach between DETI, Tourism Ireland and Invest NI. Invest NI is bringing business expertise to the area. Working with the airports and airlines, we see that joined-up approach. Tourism Ireland looks at the inbound tourism potential, and Invest NI can be there to support the airports with the business arguments. Maybe that is the package that you are talking about. No air route has a straightforward profile and a straightforward answer.

Mr McLean: That is one of the reasons why, in looking at a potential local air route development, the Minister has asked that we focus on business destinations and potential inbound tourism locations specifically, as opposed to outbound sun destinations from Northern Ireland.

Mr Humphrey: Yesterday, the Minister talked about Northern Ireland being marketed internationally by Tourism Ireland as a standout. That is something that I have raised with the Minister before and have concerns about. Do you think that there is a sufficiency of standout for Northern Ireland in terms of airports and its location as a holiday destination, when it is being marketed internationally as a distinct place for people to travel to?

Mr Simms: Part of my previous job was tourism policy. In the last couple of years, we have had a world-class product. We have the Giant's Causeway and Titanic. Belfast is a buzzing city; Londonderry is a buzzing city; and we have the Fermanagh lakelands. The Tourist Board's signature approach has come to fruition. Maybe your point is about how we now sell that. From the airline point of view, it will be about working with airports. Tourism Ireland does marketing in general. Working with airports and airlines, it will be very much about the areas that we will look to access. If it is Germany, what part of Germany are we going to? It will be about looking at what German visitors tend to do. Do they go fishing? Do they go to the Fermanagh lakelands? It is about targeting your audience.

Mr Humphrey: Yes, that is the question. I do not mean to be rude and cut across you. I appreciate the pluses that there are in the city and around other aspects, but my question is whether we are selling the package that is Northern Ireland internationally and giving it the standout that makes it a unique place for people to holiday.

Mr McLean: The Minister is continuing to press Tourism Ireland to ensure that Northern Ireland is marketed internationally as a unique destination. She will continue to press Tourism Ireland in overseas markets to ensure that there is that visibility for the Northern Ireland product in markets that we are particularly interested in.

Mr Humphrey: Which suggests that there is not.

Mr McKinney: Apologies for being late. If I ask you anything that you have already answered, just tell me.

The European rules changed the context after 2007, but how much money was invested up to that point, how successful was the intervention, and how was success measured?

Mr McLean: Are you referring to the previous air route development?

Mr McKinney: Yes.

Mr McLean: Four million pounds was invested in that, and there were nine routes. There was an evaluation carried out at the end of that.

Mr Simms: Effectively, there were nine routes. When the funding stopped, it coincided with the economic recession, and a number of the routes fell by the wayside. You could also argue that that happened across the European Union. At that stage, numbers in Dublin fell from 24 million to 18 million passengers.

The air route development fund provided an incentive at the time. We had one destination in northern Europe at that stage — Amsterdam — and the air route development fund incentivised and brought Northern Ireland to the attention of airlines.

Mr McKinney: Do we have measurements for how successful that was?

Mr McLean: Yes. A report at the time indicated that, through the previous investment, one million passengers were flown on funded routes and that there were 29,000 new visitors to Northern Ireland. The new visitor spend was estimated to be £12.5 million, and, resulting from that investment, 207 new jobs were created in the aviation industry. So, there was a quantitative —

Mr McKinney: So, a small investment had a big, big return.

Mr McLean: There was a reasonable return on it.

Mr Simms: One of the key lessons from the evaluation was that there could have been a better focus on inbound tourism and business routes, which is what we are considering now.

Mr McLean: One of the other lessons that we want to learn would be to ensure the sustainability of routes once funding ended, because there are rules on how long you can provide funding.

Mr McKinney: Are you saying, therefore, that the investment was largely on the tourism side of the other routes and that that was where most of the impact was?

Mr Simms: No. At that stage you had the Belfast to Newark route, which was probably the most significant one. One of the issues with a new air route development fund is that it will be intra-European, so long-haul routes would not be eligible. New York Stock Exchange said that the Belfast to Newark route was one of the main reasons that it located here. It has its tenth anniversary here this year, so that was a key change. The Paris route was another one that was introduced; it is still there, and it is an important destination.

Mr McKinney: I would not say that I am concerned, but I worry slightly when you talk about Dublin being there achieving and that we will always be lower. In the analysis, you have done projections for growth in years to come, but does that take into account the fact that we must shift from a 66% reliance on the public sector? In other words, are you bringing into your calculations the fact that, if Northern Ireland is to be successful, it will have to transform its economy? Have you brought that into the figures?

Mr Hetherington: The passenger forecasts are based on general trends in the status quo in a baseline scenario.

This is the corollary of a point that was made before. We have not included economic scenarios such as those where, due to a reduction in the rate of corporation tax, there was additional traffic or where

there was a reduction in traffic as a result of more severe austerity. It is more of a baseline of general trend growth in economic passenger forecasts. One of the main reasons for that is that any changes in economic activity tend to be temporary. So, the 2008 financial crisis resulted in a reduction in traffic, but within a few years you will get back to where you were. This is a decision for the long term, so we want to look at a long-term analysis.

Mr McKinney: Yes, but if things are to change here, we will have to have rapid change in how our economy functions; if we are to have any ambition, that will have to happen. If we are going to be in the low place, we will always be there, but if we have any ambition that has to change. Therefore, is your report not flawed? It takes a line from a baseline and assumes all other things to be equal; whereas if we are to succeed, we need to do something different.

Mr Hetherington: The way the report is structured, the baseline number is not essential; the difference that a change in APD would have is what is important. So, if the baseline is out by one million passengers, as long as the difference between the baseline and the impact that a change in APD would have is correct, that is more important.

I accept your point about the need to be aspirational for the Northern Ireland economy. However, regardless of whether the overall change in traffic is marginally higher or lower, the point about this analysis is to look at the impact that a change in APD would have. That could be more static.

Mr McKinney: The point that I am making is that if we want to change radically, and you are just concentrating on the difference and the effect that that would have, surely we should be looking at things in a different way and saying, "How could that be a driver to that change?".

Mr Hetherington: Correct, which is why we do not think that there was a particularly strong case for removing APD. To facilitate that change, we need to focus on attracting foreign direct investment, establishing business routes, and attracting inbound tourism. So, that aspiration points towards a more targeted strategy than a blanket reduction in APD across the board, which, from the evidence that we looked at, would result primarily in an increase in outbound tourism rather than the generation of economic activity in Northern Ireland.

The Chairperson (Mr McGlone): Why do you project that that would happen here when it did not in the South?

Mr Hetherington: We are projecting that it will increase outbound tourism.

The Chairperson (Mr McGlone): The figures and facts from the South say that it increased inbound tourism. Mr Hastings said:

"If you compare with our nearest neighbour in the Republic of Ireland, in the two years since they abolished air passenger duty, they've seen arrivals grow by 1.1 million passengers. That's not to say it would happen to that extent for us, but the size of the prize is enormous."

Why should it be so different just a few miles down the road?

Mr Hetherington: We are not saying that there will not be an increase in inbound tourists. I cannot speak to the Dublin figure, but it sounds as if that is their estimation of the increase in inbound tourism. With the ongoing reduction and abolition of APD in Dublin, there will also have been an outflow, the figure for which is not provided in the analysis.

The Chairperson (Mr McGlone): Not a few of whom are from the North.

Mr McLean: Even if you look at the Dublin figures for the flow through the airport, they have not gone back to their 2008 levels. To a certain extent, there was a drop due to the economic recession, so part of the rebound may be due to the recovering economy in the South, which means that it is hard to know exactly how many of those are outbound or inbound.

Mr Hetherington: I have not done the analysis on the numbers flying out of Dublin, but significant play was made of the growth in passengers following the abolition of APD. Abolition was more of a headline than a big deal from a financial perspective, because the last rate of APD was only €3. So, the final reduction that led to the abolition was not from €15 or €20; it was only from €3. Much has

been made about growth in passenger traffic and attributing it to what was, in effect, a €3 reduction in the cost of air fares.

The Chairperson (Mr McGlone): Thanks very much, gentlemen, for presenting to us today and for your work so far.