



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

‘Air Connectivity in Northern Ireland: the Economic Impact of
Changes to Air Fares and Short-haul Air Passenger Duty’:
Department of Enterprise, Trade and Investment,
Department of Finance and Personnel and
Ulster University Economic Policy Centre

13 May 2015

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Members present for all or part of the proceedings:

Mr Daithí McKay (Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Mr Paul Girvan
Mr John McCallister
Mr Ian McCrea
Mr Adrian McQuillan
Mr Máirtín Ó Muilleoir

Witnesses:

Mr John Simms	Department of Enterprise, Trade and Investment
Mr Tony Simpson	Department of Finance and Personnel
Mr Gareth Hetherington	Ulster University Economic Policy Centre

The Chairperson (Mr McKay): I welcome John Simms from the economic policy division in DETI; Tony Simpson from the strategic policy division in DFP; and Gareth Etherington, who is the associate director of the Ulster University (UU) Economic Policy Centre. You are all very welcome to the Committee this morning. I ask you to make some brief opening comments with regard to your own work but also in response to the issues that have been raised by the airports and the tourism sector. I am sure you have a copy of the comments that were made at our previous session, so you might want to respond to some of their severe criticism of the report.

Mr Tony Simpson (Department of Finance and Personnel): Thanks for the opportunity to brief the Committee on this matter. I apologise that the departmental response to the Clerk's letter of last month has not been received. Hopefully, that will be with you shortly. I also thank the Committee for providing the evidence that was supplied by the industry representatives who were at the Committee session last month.

As the Committee will have seen, the submissions highlight the industry concerns about the impact of APD. As you said, Chair, they also raise a number of issues in relation to the Ulster University study of air connectivity, and in particular the approach that was taken to assessing the economic impact of cutting or reducing APD. The Ulster University has provided a response to the Mott MacDonald report, which you will get as part of the Department's response. Gareth is from the Ulster University and will provide, by way of opening comments, a bit of an overview of that response. No doubt, we will discuss that later.

Having considered the Mott MacDonald report and the Ulster University response, it is our view that the research that has been undertaken by UU provides a reasonable assessment of the potential economic benefits of cutting APD. We will get into that in the session. As the Committee will recall, the UU research concluded that there was not a strong case for the devolution of short-haul APD, for a number of reasons, including the high levels of dead weight — which essentially meant that we would be funding a tax cut for those who would travel, either to or from Northern Ireland, anyway — the quite significant costs from the block adjustment that would be required and the uncertainties around whether and how the benefits would materialise.

Rather, UU has suggested that a more targeted intervention would be more appropriate, such as the use of an air redevelopment fund. We have John Simms from DETI here, who might touch on that later. With the Chair's permission, I will ask Gareth to make some opening remarks from a UU perspective and give its response to the Mott MacDonald critique. Before I do that, I would like to clarify one issue where there could be some confusion.

I am aware that Belfast International Airport quoted some figures in the media, which were touched on in the Committee session, stating that reducing APD could create 3,800 jobs and add £200 million per year to the economy. It is my understanding that those figures relate to Scotland and were part of a report published by Edinburgh Airport. They relate to the perceived benefits of cutting APD but perhaps do not reflect the costs that would be associated with devolving and cutting the tax. I wanted to be clear that those figures do not relate to Northern Ireland.

The Chairperson (Mr McKay): So you are saying that those exact figures are the exact figures for Scotland.

Mr Simpson: They are from the Scottish report.

If you are content, Chair, that is all I will say before I hand over to Gareth.

The Chairperson (Mr McKay): Are there any comments on that?

Mr Cree: It does not make it much clearer, but we are getting there.

Mr Gareth Hetherington (Ulster University Economic Policy Centre): Thank you, Chair, for the opportunity. I want to make a few quick opening comments, and the obviously there will be a lot of questions that I will endeavour to answer.

First, by way of background, the Ulster University Economic Policy Centre is an independent economic research centre, formerly called the Northern Ireland Centre for Economic Policy (NICEP). That is the branding that was on the original report, and we are the same unit. Our remit is to provide balanced advice to Government on the impact of policy decisions. In this particular instance, that means looking at both the economic benefits and the economic costs associated with devolving APD.

As Mr Simpson already said, we have provided detailed information to DFP in response to the Belfast International Airport critique. That response paper deals with each of the individual issues raised in its paper. In summary, we do not accept the comments that have been made by Mott MacDonald. We are happy and content to stand over the conclusions we made. I am sure you will have a lot of individual questions about the approach that has been taken, but there are a couple of comments that I would make by way of introduction.

First, there the suggestion that there was a calculation error in our report. That is not the case. We had taken an approach that was agreed with DETI, which is something that was not understood by Mott MacDonald. The second point —

The Chairperson (Mr McKay): What was that exactly?

Mr Hetherington: Do you want me to go into the detail of the calculation error?

The Chairperson (Mr McKay): Yes.

Mr Hetherington: We looked at two tax scenarios. We calculated the tax that we think Northern Ireland contributes through APD to Treasury, and there is also the HMRC estimate of tax that Northern

Ireland contributes in respect of APD, so there are two tax scenarios. Of the three options that we looked at, one was to actually increase APD. We had made the assumption that increasing APD would deliver a net economic cost to the Northern Ireland economy. Therefore, we assumed and agreed with DETI that the Executive would only agree to take forward an increase in APD if they could maximise the amount of revenue that they would raise for other spending. So, in the detailed part of the report, we identified the lower tax revenue raised and the high tax revenue raised.

When we then went into the summary section of the report, we only included the higher tax on the assumption that that would be the only basis on which you would take that option forward. As a result, that is what we included in the summary report. When Mott MacDonald looked at it, they just saw the difference and said, "Oh, they haven't carried forward the lower tax cost. They've used the higher tax cost in both instances." They interpreted that as a calculation error, but it was an assumption that we had used in the report.

There are a couple of other points. Mott MacDonald talked about the currency of the data in some parts of the report and made mention of the fact that we have, in some instances, used outdated data. The key area of the report that that refers to is the use of 2006 Civil Aviation Authority data for the passenger forecasts. It is important for the Committee to understand a number of things. First of all, the 2006 data is the latest passenger survey information that we have available for Northern Ireland, but the Committee should be assured that, where more recent information was available, York Aviation, in its passenger forecasts, used that. It is also probably important to know that the reason we had to rely on the 2006 data was that Northern Ireland airports did not take part in the annual passenger survey after that date. It was because of a decision that the airports made that we were required to use that data. However, it is only a part of the overall information used. The Committee should not think that we are just sitting solely using a 2006 data set: we have used much more recent information.

In terms of the criticism that came from the airports, there is a strong suggestion that we have been too cautious or too prudent in the assumptions that we have made in our report. Again, we reject that argument. Our remit, in terms of providing independent economic policy advice, is always to provide a realistic and reasonable answer and to use realistic assumptions. I suggest that in each of the assumptions — we can go through them one by one if you like — we have been neither too pessimistic nor too optimistic. We have sought to be realistic in each option.

Thank you, Chair, for giving me the time to make those opening comments.

The Chairperson (Mr McKay): One point that Mott MacDonald raised was the use of the Scottish input/output (SIO) tables. It said that your reports relied on the 2009 tables, citing the fact that they were the latest available. Mott MacDonald is saying that the 2011 SIO tables were available at that time. Were they wrong or were you wrong on that point?

Mr Hetherington: No, we used the information in the 2009 tables for the analysis. An important aspect of input/output tables is that it is not critical that you use the latest information. If we were doing the report today, we would use the 2011 tables. The reason that it is not critical is that, year on year, the multipliers in the input/output tables change very, very marginally. There is very low volatility in changing —

The Chairperson (Mr McKay): In this paper, you stated that the 2009 figures were the latest available. Are you now admitting that they were not the latest available?

Mr Hetherington: When we did the data search at the beginning of last year, the 2009 figures were the latest available. Since then, and shortly before the publication of the report, the 2011 information became available. It is important for the Committee to understand that it is not essential when you are doing this to use the latest figures, because there is such low volatility. We went back and looked at the 2011 numbers to see if they would have made any material impact and found that there would have been no change to the net impact. There are a number of different types of benefit: the indirect benefit would have been marginally lower, but the induced benefit would have been marginally higher by the equivalent amount, so using the 2011 data would not have changed the results in any way.

The Chairperson (Mr McKay): The airports were extremely concerned by the situation we are in, with Dublin Airport reporting an increase in passengers of 47% from the North in the first six months of 2014. What is your assessment of the key drivers for that? Is it your view that, regardless of APD, that drive towards Dublin will proceed anyway?

Mr Hetherington: Our report looks at passenger flows through Northern Ireland airports as opposed to passenger flows through Dublin, although Dublin is obviously relevant to the analysis. There are a number of factors that are driving people from Northern Ireland to use Dublin Airport. If it is cheaper, that is clearly an attractive proposition. In addition, Dublin offers much greater connectivity, much greater choice and a much greater number of direct flights. Those are also very important factors in people's decision-making. In terms of how that factors into the passenger numbers in our report, based on the numbers that York Aviation provided us, it is estimated that if APD were to be halved — we looked at a number of options, including a 50% reduction and a 100% reduction — approximately 230,000 additional passengers who currently use Dublin would use Northern Ireland airports. Were APD to be abolished, that number would be closer to 330,000. So we recognise a lot of what the airports are saying about the positive impact that a reduction in or the abolition of APD would have on passenger numbers, and do not dispute that.

Mr John Simms (Department of Enterprise, Trade and Investment): I will add that there is no doubt that the number of Northern Ireland residents using Dublin is increasing, and there are a range of factors. It is a major European capital city. Dublin had 24 million passengers before the economic crash; it is now back up to about 21.5 million. As Gareth said, it can offer many more destinations than we can and that we could not sustain from here. From our point of view, it is a challenge but an opportunity. For example, if people use Dublin to fly to Germany, there is that leakage issue. It is about persuading the airlines to travel from Northern Ireland to Germany. It is the same scenario for Canada. It is about using that information to persuade the airlines in what is a difficult climate at the minute. It is not the same as it was before the economic crash, when you had the budget airline boom; it is much more competitive out there now. It is how we use that information to persuade airlines that it makes more sense to fly from here directly to Germany, Canada and other places. It is a challenge, but there is an opportunity there for us.

The Chairperson (Mr McKay): You are looking for passengers to go from the North, but surely you will not get the airlines. If APD were abolished, there would be more chance of the airlines coming to the North, as well as the passengers.

Mr Simms: One of the key messages to get across from the NICEP report is that it demonstrates benefits. That is one of the messages that it is important to get across. If you were to get rid of APD, the report says, you will have a 12% increase in passenger numbers. That is delivered by airlines increasing capacity and putting on new routes. There is no doubt that you get an economic benefit — £55 million to £60 million. The flip side is that, because it is a UK tax, that money comes out of the block grant. That is what the report says: there are definite benefits here, but the cost of it coming out of the Northern Ireland block more or less offsets those benefits. Were there to be no APD, you would have a significant increase in Northern Ireland passenger numbers, but what Northern Ireland Ministers are saying to Treasury is that we should not have to pay for it. If we do, it comes off the balance sheet, effectively.

The Chairperson (Mr McKay): Does the same apply to Scotland?

Mr Simms: The same applies to Scotland, so —

The Chairperson (Mr McKay): What I am saying is that were Scotland to get APD and abolish it, it would still be a greater cost to them, so it is not a risk worth taking for them, in the same way as you say it is not a risk worth taking by us.

Mr Simpson: The response to that is that the funding arrangements would be the same. The European rules are the same for Scotland and for us, so it would require a block grant adjustment. The choice is for Ministers to make, recognising the impact that the cost would have on public finances and deciding whether it is the most appropriate way to achieve whatever the policy objectives are, be they using it as an economic lever, a way to increase air connectivity or a means of increasing fiscal accountability, which is the debate in Scotland. There is a great emphasis on that, and it is a key motivating factor for a lot of the devolution activity in Scotland.

The Chairperson (Mr McKay): Given some of the criticisms of how this analysis was run, is it feasible to rerun the analysis using the mid or average values instead?

Mr Hetherington: We argue that when we talk about mid or average values, in the analysis and assumptions that we have done, we have taken what we consider to be realistic. The airports and

Mott MacDonald are of the view that we have always been at the pessimistic, bottom end of the scale. We suggest that we could have gone further in many instances and did not — because we did not want to be too pessimistic. In some of the sensitivity analysis we looked at what would happen if the benefits were larger. Yes, doing that would give a more positive picture; it is going to increase the economic benefits in the analysis. However, once you start to move to a more optimistic scenario, you move into an outcome that is potentially more unlikely. In terms of what government would do, we wanted to be, if not absolutely, reasonably sure that the benefits that we have calculated would be achieved if APD were abolished or reduced.

Mr Cree: Are you saying that you were pessimistic all the time?

Mr Hetherington: No, what I am saying is that we were not. I am saying that I think —

Mr Cree: Were you optimistic any of the time?

Mr Hetherington: No, I think that we were realistic all the time.

Mr Cree: What does that mean?

Mr Hetherington: Well —

Mr Cree: Does that mean mid-range?

Mr Hetherington: You have pessimistic, optimistic and realistic.

Mr Cree: So you think that you are in the middle, between the two.

Mr Hetherington: I believe so.

Mr Cree: Mr Simms referred to the similar situation in Scotland, but surely, with the Highlands and islands derogation, it is a different scenario altogether.

Mr Simms: The Highlands and islands exemption is for lifeline services, effectively. The Treasury has designated that legally. It is 13.5 people per square kilometre, whereas we are 122, and it is only for aircraft that carry 20 passengers or fewer. Getting that sort of designation for us might be difficult.

Mr Cree: Obviously we do not have it, but it would make a difference when comparing the Northern Ireland situation with Scotland as a whole. You suggested that it would be much the same.

Mr Simms: I do not have the detail of the exact numbers flying from the Highlands and islands, but Edinburgh, Glasgow, Aberdeen and Prestwick are the lion's share of traffic. It does not apply to them; it applies only to lifeline services in the Highlands and islands, where you need a subsidy or a public service obligation to maintain those services. Edinburgh, Glasgow, Prestwick, Aberdeen and Dundee do not benefit from an APD exemption.

Mr Cree: No, but do you have any idea what the contribution is from the Highlands and islands? What percentage would it be?

Mr Simms: I do not, but we can certainly find that out.

Mr Cree: The Chair covered most of the main points, as usual. One of the things that concerned me was that Mott MacDonald said that, in your case, there was a lot of unexplained methodology. Can you perhaps clarify that?

Mr Hetherington: In terms of the level of information provided in the report and the methodological approach taken, the amount of detail is in line with the amount of detail provided in other economic impact assessments. Mott MacDonald raised that issue because it wanted to rerun the numbers. The purpose of a report is to report findings; it is not necessarily to give an independent organisation all the information to be able to run through and rerun each of the calculations.

Obviously, we did this report for DETI and DFP. In doing the work, we discussed it with officials and economists in both Departments as we were going through it. The methodological approach was being explained to our primary Departments and the recipients of the information so that they understood what we were doing. If we were to go into the level of detail that Mott MacDonald requested, this would have been a 500-page report and would have been completely outwith what is typically provided in an impact assessment report.

Mr Cree: So it is an impact assessment report.

Mr Hetherington: Yes, it is a report to report the findings.

The Chairperson (Mr McKay): In the conclusions that you have reached in the report, you have outlined risks and uncertainties associated with the reduction in APD and areas that need further work before a fully informed position is reached. Is there any work planned in that respect? What information do we have in regard to projections in terms of, for example, further foreign direct investment (FDI) arising from a reduction in APD and the increased possibility of routes into Germany, Canada and so on?

Mr Hetherington: I can make some general comments on FDI, but it is a question better directed to DETI. Obviously, one of the identified benefits of reducing APD is enhanced connectivity, which would include routes into business destinations. The analysis found that reducing APD in Northern Ireland is likely to encourage greater numbers of people from Northern Ireland to travel out. It will encourage more outbound than inbound travel. Leisure travellers are much more price-sensitive than business travellers, which encourages more leisure travel than business travel. It is less likely that reducing or abolishing APD would create significant numbers of new links or new destinations to business cities.

The Chairperson (Mr McKay): Surely the two overlap. If people are going to Germany for leisure and there is a new route to Germany, it opens up a route in that direction for business.

Mr Hetherington: That is true, but, from a route destination point of view, there are business destinations and bucket-and-spade destinations. When you look at the analysis, given that it will increase leisure travel, you will see that the additional destinations are more likely to be bucket-and-spade destinations. I will give you an example from a long-haul APD perspective. When long-haul APD was abolished, the Newark service was maintained, but the only other direct long-haul services are very small numbers of flights to Sharm el-Sheikh in Egypt and to Orlando. Those are leisure destinations; they are not business destinations. You gave the example of flights to Germany — to Berlin and those types of destinations.

Mr Simms: I will add to what Gareth said. Outbound leisure destinations are also important for route connectivity. If you have a route to Germany and the plane's load factor is 80%, 50% or 60% of which is people from here, the airline needs that to be sustainable. It is the 20% of people from Germany who fly in who provide the £250 per person per trip. That factor is there, and, to take Germany as the example again, we might not be looking at a new service into a major hub airport twice a day, which is what businesspeople are looking for. It could be that it is a two-, three- or four-times-a-week service to an inbound tourism destination in the first instance.

Passenger increases are reflected in the report. It reflects the fact that you will get increased capacity and you will get routes. It would be for the airlines themselves to bring those forward. In general, 3-5 million people fly out from Northern Ireland each year, and they will have the rate applied no matter what. Mr Cree made a point about assumptions: the NICEP report states that, within two years, airlines will pass the entire cost on. That is a good assumption. In effect, the airlines are saying that, if APD were devolved and we got rid of it, they would pass that on to passengers, which is a positive assumption.

Mr Ó Muilleoir: Thank you, gentlemen. I am sorry for missing the start of the presentation. As you know, we discussed the report previously. Would you gaze into your crystal ball and tell me how you see the development of Belfast International Airport over the next five years? When we met the gentlemen from that airport, they told us that they could put on an extra one million passengers and create 1,000 jobs. Your report disputes that figure, but that is their figure, and I regard them as the experts in this matter. How do you see the development of Belfast International Airport, particularly vis-à-vis Dublin Airport, over the next five years? Do you see vast growth? Are you optimistic, pessimistic or realistic?

Mr Simms: I see growth at Belfast International Airport. Look at the number of new routes at the international airport. Wizz Air is a new airline into Belfast International Airport. We work closely with the airport, and they are out all the time looking to get routes. They are proactive. EasyJet has announced a major increase in seat capacity. Those are positive noises. There is no doubt that there is a challenge and that Dublin is a challenge, but it is not just about air passenger duty, as some would argue. The road network is so good now, and you can get a bus from here to Dublin. Dublin Airport is actively marketing in Northern Ireland.

Mr Ó Muilleoir: I have made the point before in Committee that the road goes both ways: how come they are not marketing down there? If the road to Dublin is good, is the road not good from Dundalk, Drogheda or Monaghan to Belfast International Airport? Does it go only one way?

Mr Girvan: That is interesting.

Mr Simms: No, no. The road goes both ways, but Dublin provides much more connectivity than Belfast International Airport. It is important to say that Belfast International Airport, Belfast City Airport and City of Derry Airport are not looking to be Dublin. We are looking for achievability. We need as much direct access as possible. We need direct access into Scandinavia, Germany and certain parts of northern Europe for business and from a tourism perspective. There is no doubt that Belfast International is key to that, and they are actively out there looking to get those routes in.

We can help it with a couple of things. We support our airports at World Routes conferences, so we will be supporting Belfast International in Durban in September; we organise a Northern Ireland stand. You will have heard about the European routes conference coming in 2017. That is a significant conference not just for Belfast but for Northern Ireland. It is an example of government, Visit Belfast and the airports working together. In effect, two annual world conferences bring together airlines and airports: World Routes and Routes Europe. We have managed to get Routes Europe, which will be a major coup in 2017.

Mr Ó Muilleoir: I take your point. In fact, the last time we discussed the issue, I made the point that the airports needed to up their game as well and could not blame it all on APD. Do you agree, however, that air passenger duty is a barrier to and a brake on their development?

Mr Simms: As the report states, if we did not have to pay the tax, there would be a 12% increase in passenger numbers and an extra £55 million to £60 million in the economy. Because it is a UK tax, we would have to pay for it under the Azores criteria. That is when things tend to balance out.

Mr Ó Muilleoir: So it is a brake on the development of the airports, our economy and tourism.

Mr Simms: It is fair to say that the ETI Minister and the Finance Minister will frequently say — they have spoken about it to Treasury — that it is a tax that has an unfair impact on Northern Ireland. Their argument is that it has to be dealt with at a UK level. The Smith commission has said that Scotland will get it devolved, and we understand that the Treasury will shortly come out with a consultation about the regions of England. The knock-on effect is that the regions are looking to see how this will impact on them. Newcastle International Airport is worried about what is happening north of the border. We have not seen the content of that consultation, but —

Mr Ó Muilleoir: I think that Tony wants to come in. You agree that it is a brake. We have changed economy Minister and Finance Minister and have not heard them repeat their disappointment at this tax. However, you agree that it is a brake on airport, tourism and economic development. Does Tony want to come in? Do you agree that it is a good tax for London?

Mr Simpson: It certainly raises significant revenue for the UK Exchequer. To reiterate John's point, Ministers have said that it should be tackled. It is imposed at UK level, and we believe that it should be tackled at that level, because that would bring benefits for the whole of the UK, including Northern Ireland.

Mr Ó Muilleoir: What does that mean? What do you mean by tackled at UK level?

Mr Simpson: Reduce it across the UK as a whole rather than leaving it to the devolved Administrations to reduce it. We would then have to take it out of the block.

Mr Ó Muilleoir: We would not have to, of course. Where the pain falls is a matter of negotiation. In this case, the tax is very good for London. It is a typical case of a tax that is devised by English Ministers that is good for London in particular. I am sure that Heathrow is delighted with it. It started as what was supposed to have been a green tax, but that has been long forgotten. Surely the way to tackle it is to give the devolved regions a say, and we then need to discuss where the pain falls. There was not much discussion about it when it was introduced. Why would we have to take all the pain if it were removed?

Mr Simpson: Were we seeking to devolve it, the European rules on how taxes are devolved are quite strict. Under EU rules, as per corporation tax, we would have to take a block adjustment equivalent to the tax receipts foregone, so there would be limited scope for us to negotiate down the cost of that.

Mr Ó Muilleoir: Surely that should still be a matter of negotiation.

Mr Simpson: European rules give little flexibility there. We would need to take a block adjustment equivalent to the tax receipts foregone. That would still be significant. We would rather see this tax reduce across the UK so that we would reap the benefits but not have an associated block adjustment.

On your point, Máirtín, about whether it is an inhibitor, it is clear from the research that it has a negative impact on connectivity and passenger travel. The question is whether reducing it and bearing that cost is the most effective way to tackle that issue. If we are trying to grow our economy, is incurring a £60 million block adjustment for APD the most effective way to do that, or are there other things, such as the urban development funds that John suggested? Are there broader things that we could use that money on to improve the economy? That choice is for Ministers to make: where do you get your biggest return — the biggest bang for the buck?

Mr Ó Muilleoir: It really comes down to the block grant and who controls it, but it seems to me that the effect on the growth of the airport, of tourism and of the economy is manifold. An added difficulty at this time is the fact that we are trying to create a buzz about Belfast, and, when people talk about leisure tourism and business tourism, you get an image of a city that is on the move with the fastest growing knowledge economy in Europe. The more connectivity you have, the better that is for the city, but this seems to be inhibiting that. It is a classic case of a decision taken in London that is good for London but is certainly not good for Belfast, although I do not know about Glasgow and Edinburgh.

The Chairperson (Mr McKay): I want to clarify for members the figures on page 56 of the NICEP report. They state that a 50% reduction would cost us £26.1 million this year. You are saying that the income effect is £4.4 million. What does that income effect consist of?

Mr Hetherington: The income effect is that, if APD were reduced, local people would not have to pay it, so they have that £6.50 in their pocket. That is an income effect; it is a positive benefit to local people because they do not have to pay the tax.

The Chairperson (Mr McKay): That does not take into account the wider economic —

Mr Hetherington: No, that is just a fiscal or taxation point. There is the amount of money that is taken out of the block grant, and then there is the amount of money that local people are better off by because they do not have to pay the tax. The wider benefits are dealt with in the economic benefits section.

The Chairperson (Mr McKay): Is there an estimate of what the income effect is, coupled with the overall economic impact, so that we can balance it out?

Mr Hetherington: In the analysis, we have the government spend impact, which is a negative, and we have the income effect, which is a positive, and there is then the net government impact. The summary table sets out and includes all those aspects. It includes the wider economic benefits that you were talking about, the fiscal cost to the block grant and the positive income.

The Chairperson (Mr McKay): Are the government spend figures based on Treasury figures?

Mr Hetherington: There are two tables: table 5.14 — I think that you are looking at that one — is based on our estimates and the York Aviation passenger estimates; and table 5.15 is based on HMRC figures. You can see that the government spend impact is greater there.

Mr Ó Muilleoir: Chair, if I can come in on that. Help us out with this. Do we know or do we not know exactly what the actual income from APD was last year?

Mr Simpson: We do not have the exact figures. We are taking this from the HMRC report, which has estimates.

Mr Ó Muilleoir: So we do not have figures.

Mr Simpson: No — not precise figures.

Mr Ó Muilleoir: Are they guesses, or are they figures? This man here talks about trust and transparency: are they figures, or are they not figures? We are basing a lot of assumptions on figures from APD income, so tell me what we have that is accurate.

Mr Simpson: APD is raised centrally, and the money goes straight to the Treasury. At the minute, there are no precise calculations for what is raised in each region across the UK. HMRC allocates, at a relatively high level, what it thinks are the tax revenues across each of the devolved Administrations and England, so that is a high-level estimate.

Mr Ó Muilleoir: I am very impressed by high-level estimates rather than low-level estimates. The guys who devise the tax decide, if we ask them, how much, but there are no exact figures, so how do we negotiate with them about the amount of pain that we would or would not take when we do not know how much it costs?

Mr Hetherington: We are suggesting that Treasury's opening position is likely to be the HMRC estimate, but, from the passenger numbers that we are looking at and the way in which they travel differently, whether in premium or economy class, we believe that we have a much more accurate estimate of the level of APD that is raised in Northern Ireland. The work that we did and that York Aviation did would, in effect, form a good basis on which to start that negotiation with Treasury.

Mr Ó Muilleoir: Do you agree that it might be good if we had exact figures for these matters? I am not blaming you, but do you agree that it would be useful to have exact figures when we are talking to London so that we know exactly what they are, rather than the people who devise the tax telling us that this is how much we will gain or lose from it?

Mr Simpson: I agree with you that, in the broader debate on fiscal powers, it would be preferable if we had a direct account of the precise level of taxation that is raised in Northern Ireland. However, the UK tax system has not been designed to produce or identify the taxes raised regionally, so we have estimates that are based on the best methodology that can be devised at the time using the information. We are engaging with HMRC across the piece and with colleagues in the other devolved Administrations. We are working with Scotland because it is a similar issue there.

Mr Ó Muilleoir: Do you agree that it is a very difficult way in which to do business?

Mr Simpson: In all these things, it would be better to have perfect information. When we do not have that, we endeavour to get the best information possible with the systems that are in place to produce that information. I concur: we want the best information that we can get to help to inform our decisions.

Mr Simms: I will add to what Gareth said to explain a bit more about the £55 million. As with many things, Northern Ireland is unique in the UK: our travel pattern is unique. Ours is predominantly low-cost travel — what would have been called budget travel — whereas, in GB, you have much more of a premium class. There are, for example, two rates of short-haul APD: £13 and £26. The standard rate is £26, and the reduced rate is £13. We do not have an awful lot of travellers on the £26 rate. Likewise, we do not have the same long-haul profile as in GB. We have a few direct links, but our long-haul travel is primarily through connecting. There is just not the same profile. When Treasury

does its estimates, other regions of the UK have a different travel profile from ours. I think that the NICEP £55 million is certainly reflective of the travel profile for Northern Ireland.

Mr Ó Muilleoir: I have a final point, before Mr Girvan comes in. Before we even get to Europe to negotiate how much this might or might not cost us, we would have to get some figures, because it would obviously be to HMRC's advantage, if it is calling the shots, to say that it is x when it really is y.

Mr Simpson: If we were moving to a devolved context, for example, and we were devolving the tax and setting our own Northern Ireland rate, systems would have to be put in place to identify precisely the duties that were raised in Northern Ireland. At the moment, there is some space between the estimates, and there is room to discuss that. If we came to a position of actually devolving it, it would not be on the basis of these estimates. A system would need to be put in place for the Northern Ireland regime, and the block adjustment would then be based on that actual figure.

Mr Ó Muilleoir: I like the word "regime". I will leave it there, Chair.

The Chairperson (Mr McKay): Before I bring in Paul Girvan, can we return to the Mott MacDonald report? It makes the point that York Aviation made the assumption that 50% of any change in APD would be retained by the airlines in the first year, and it would be 25% in the second year. It states that it is equally reasonable to assume that no share of the impact of APD would be retained by the airlines, given the increase in competitiveness in the industry, and that a more conservative assumption would be that 25% of the value may be retained in year 1, with all the impact passed on to passengers by year 2, which would result in a total net loss to the local economy of £7.5 million rather than £22.9 million. Is that a fair point?

Mr Hetherington: That assumption is too optimistic. As regards the revenue that would be retained by the airlines, that assumption and those decisions came from the consultations that DETI and York Aviation had with the airlines. Those consultations were taken on the basis of confidentiality. When York Aviation and NICEP identified that specific 50% in year 1 and 25% in year 2, it was on the basis of those discussions. We talk quite a bit about the extent to which it would be retained and whether some could even be retained on an ongoing basis. Would the airline seek to retain 10% or 15% throughout? There was some discussion, and we ended up making the assumption that we did. The assumption that Mott MacDonald is proposing that either the full amount would be passed on immediately or even just 25% withheld in year 1 is too optimistic and does not reflect the nature of the conversations that were held with the airlines.

The Chairperson (Mr McKay): What was the impact when the duty was phased out in Dublin? Is there something there that we could look at to get a sense of what airlines would do?

Mr Hetherington: We did not look at what happened in Dublin.

Mr Simpson: It would probably be difficult to unpick that. Obviously, that is a matter for the individual airlines, and a number of factors influence their pricing. I suspect that the effect that that would have on the overall prices would be difficult to reveal.

Mr Girvan: This comes back to the point about transparency. HMRC is putting forward an element of smoke and mirrors. We do not necessarily know the exact figures, so we are not working with an exact science. We took a hit when we decided to take £5 million out of our block grant and to retain our long-haul flight to North America. How sure are we that that was an accurate hit? Why is it deemed that we might be breaking state aid or European taxation rules if we go down the route of trying to do what is happening? I genuinely believe that, if you look at how Dublin Airport has grown over the years, you see that there has probably been an element of state involvement to ensure that it was seen as a key driver. There was a 43% increase over a year of transport coming from Northern Ireland into the Republic to fly out of Dublin. Why is that not classed as state aid that they have given to ensure that that happens? Public funding went into improving the airport and doing all that.

Mr Simpson: I will start with the point about long-haul. The figure is closer to £2 million in the block adjustment that we —

Mr Girvan: We were told that it was £5 million.

Mr Simpson: In initial cost estimates that Treasury produces, it rounds to the nearest £5 million. It is a point that was made in response to Máirtín: we now have a devolved rate for long haul. The airlines have to report to HMRC the number of passengers and the duty paid. We have accurate figures for long haul that are supplied for the number of people travelling who are paying the Northern Ireland rate. As we look at the figures at the moment, we see that there is, pre- any devolved position, a lack of clarity. We are engaging with HMRC along with our colleagues in the other devolved Administrations, and with Scotland in particular, on the methodologies that they are using in the HMRC regional allocation of tax receipts. We are not just taking the report and saying, "Right, those are the figures"; we are going through the methodology with them, challenging it and trying as much as possible to agree the approach on which the taxes are allocated for the purpose of producing this report.

Mr Girvan: I think that we have probably missed a game on ensuring that we use the opportunity. As Máirtín said, is not a one-way street; the road goes both ways. New routes have come to Belfast and are coming to the international. Likewise, we need to ensure that we retain them. To do so, they have to be profitable routes.

On the basis of APD, one argument has to be made. I wonder whether any calculation of this has been done, but no other region of the United Kingdom has to compete. Somebody can get in their car and drive to another area to take advantage of not having to pay APD. They cannot do it in Scotland or Wales; it is just Northern Ireland. We are unique on that basis. There is a very strong argument for us to look at that. We should have been making a calculation of the revenue lost from people who travelled from routes that were available to them from Belfast but who chose to drive to Dublin because they got a better rate. I will be honest in saying this: how many people from Northern Ireland travel to Florida for their holidays every year? How many of them could fly from Belfast but choose to drive to Dublin, stay overnight in a hotel before they go, park their car at Bewley's and on they go? That is exactly what is happening, unfortunately. Do we have any calculation of how many that affects?

Mr Simpson: I will pick up on the state aid point first of all, and John can follow up on the travel through Dublin. The state aid issue relates to the Republic of Ireland. They were able to do it, because they set their own tax on it, so they can set their own tax rate as they see fit. In a devolved context, when we are departing from the UK rate, the rules are quite strict, in that if we are going to devolve it, we need to bear the fiscal consequences. That is why there needs to be a block grant adjustment. The situation is slightly different. The Government in the UK could reduce APD if they wanted, but, if we are to do it separately, we have to incur the block adjustment. The ROI position is more analogous to the UK position as a whole, rather than ROI versus what we have the flexibilities to do here in Northern Ireland.

Mr Simms: On your point about Dublin and the state I will say that no APD is applied. People will choose to use Dublin because we cannot provide the connectivity that they can. They have pre-clearance, which we do not have the economies of scale to deliver. You have to have 400,000 passengers before the US Government will even consider pre-clearance. When they originally considered pre-clearance, it was to facilitate passengers; now it is more about border control. However, things are changing. You have Orlando with Thomas Cook and Virgin, and Thomas Cook goes to Las Vegas. So, you are starting to see outbound leisure flights during the summer coming from Belfast International. I think that those will increase but not to the point that they will be sustained from a Northern Ireland economy point of view. We have 1.8 million people. The GDP figures are different here from those down South, but you are starting to see movement. If there was not a direct long-haul APD variation, you would not get any of those. As it is, we have United, and there are increased opportunities. People can fly from here to Sharm El-Sheikh, for example, whereas before they had to go to Dublin. Those benefits are starting to come forward.

Mr Hetherington: You asked whether a calculation has been carried out. In the analysis, we estimate that if APD was abolished, after the full benefit had been passed on, approximately 330,000 people who are currently using Dublin would use Northern Ireland airports. That is built in to part of the analysis on APD.

Mr Girvan: I wonder whether any conversation has taken place about this. We always talk about the hub and the spoke. If APD were abolished in Northern Ireland, it could become a hub not just for Northern Ireland but for the UK as a hopper to other areas in Europe. What is to stop it?

I know that if you fly direct from Gatwick and are flying to other regions, sometimes you stop off in Dublin and you sit back and say, "Why are we flying back here to go back there?". That is what happens. I wonder whether there has been a thought that that might happen and some major airline might decide to make Belfast its hub, and as a consequence it will use it. I am thinking about KLM or one of those, but maybe it is too close to us, as it is on our doorstep.

Mr Hetherington: Airlines like small numbers of hubs so that they can concentrate their activity. Given the size of the Republic of Ireland population relative to Northern Ireland and the much bigger size of its economy relative to the Northern Ireland economy, there is much greater demand for connectivity and for flights out of Dublin. As a result, airlines do not think from an NI/ROI perspective. It is an island, and Dublin presents a much more attractive hub proposition than Belfast. That is not to say that we could not become a hub in due course. Similarly, there is one hub in mainland GB at Heathrow, and, in some of the research that I looked at some time ago, it was found that, where countries have tried to set up two hub airports in relatively close proximity to each other, it breaks down and does not work. In a sense, Dublin has stolen a march on us in achieving that hub status for the island.

Mr Simms: I will just add to what Gareth said. If you flew from GB and hubbed through Belfast for long-haul, you would still be charged the long-haul rate because of any connections. If you flew from GB and stopped here for 24 hours, it would be great for Belfast because you would get to spend a bit of time, but people do not do that. They want the through-ticket from their place of origin, so you would still be charged the long-haul rate, even though we would not have the direct long-haul rate applied here.

Mr Ó Muilleoir: Can I finish off, Chair?

The Chairperson (Mr McKay): I will bring Leslie in, and then you can come in.

Mr Cree: I was going to make some points about the Dublin issue, which Paul just did. Listening carefully to you, it seems to me that your logic is "Dublin has already done it. We are a poor relation, and we do not aspire to even compete". Is that unfair criticism?

Mr Simms: That is not the case at all. Dublin is a challenge, but it is an opportunity. We get a lot of our via traffic from Dublin, such as our American visitors. However, direct access is always preferable. We are looking to see whether we can get as much direct access as possible. Until recently, you could not do route development funds. The European Union changed the rules last year. The UK has been engaging with the Commission. They are about to get approval for a route fund, and they ran a competition that —

Mr Cree: Tell me how you will handle the economic magnet of Dublin going forward. What I hear is this: "They've done it; we can't compete". Tell me something different.

Mr Simms: Northern Ireland is not seeking to be a hub. We are looking for access into Scandinavia — for example, into Denmark — and that will act as an onward hub for the rest of Scandinavia. We are looking for access into Germany. We are not looking to beat Dublin. We are looking to punch at our weight or preferably above it. There are parts of Europe where we do not have access, and it is about getting access to them.

Mr Cree: You have to have the inspiration and aspiration to move on and to make things better. It seems to me that you are accepting the status quo by saying, "Dublin has done it, so we will maybe get something". I would like to be a lot more optimistic than that.

This is my last point. There was a comment about direct comparisons with the GB mainland and with England in particular. Those comparisons are grossly unfair and miss a major trick. They have high-speed rail networks. We do not have those. That is surely one of our arguments when dealing with the European connection. We are an island off an island. We have poor infrastructure in that regard, and we therefore need to do something different. We cannot just lie back and accept it.

Mr Simms: Just to clarify, the comparison with GB was factual and concerned our travel profile as a population. We have to fly. Roughly speaking, three quarters of our flights are within the United Kingdom and about a fifth of GB flights are within the UK. We have to fly, but the fact is that our profile is the lower-cost, budget-type profile. We do not have that high, long-haul —

Mr Ó Muilleoir: With respect, you are looking at the wrong population. Dublin does not look at 1.8 million or 4.4 million; it looks at 6.4 million on the island. You are looking at the wrong population. Of course, if it was 1.8 million, Belfast would be just as well folding up shop. It is not just Belfast; it is the entire island you are marketing. Not all of it, of course, but I think you are looking at the wrong market. Sorry, Leslie.

Mr Cree: That is actually the point. We have a big disadvantage in infrastructure compared with GB. Never lose sight of that; it is vital and is part of our argument for improving the structures.

Mr Simpson: The one general point I will make is that we are looking at ways to improve circumstances and to improve connectivity. There is a discussion on APD looking at whether it is the most appropriate lever or whether, as the research suggests, there are other options that we can use to stimulate connectivity and improve the throughput in our airports. To respond to the point that there is perhaps a lack of ambition or vision, we want to identify the best approach we can to achieve what we would like to see happen. It is not that we are saying —

Mr Cree: I am glad you made that point, because it was not coming across, I have to say.

Mr Simpson: I just wanted to make it, because I know we are very much talking about the impact that a reduction in APD could have. I want to put that on the record. It is not that we are sitting happy to take the status quo. It is a matter of determining what the most appropriate way is to address the challenge that we face. That is, collectively, what the Departments are looking at.

Mr Cree: You are not ultra-conservative or pessimistic?

Mr Simpson: No.

Mr Cree: Do you have a positive approach?

Mr Simpson: We have a positive approach, but, as Gareth said at the outset, we need to be very realistic. We are not Dublin, but we want Belfast, Northern Ireland, to be the best that it can be in its connectivity.

Mr Cree: I am glad to hear that.

Mr Simms: Before the economic crash, there were eight million passengers in Northern Ireland airports; there are now seven million. We need to get the people who use Dublin to use Northern Ireland by providing the access that they are, effectively, going to Dublin to get. It should be our target to get back to that figure of eight million and then to exceed it. The airports are out all the time proactively; they are on the ground and knocking doors. We support them in doing that. There is not a lack of ambition there.

Mr Cree: I am glad to be reassured on that. Thank you.

Mr Ó Muilleoir: You are getting full value today, gentlemen. *[Laughter.]* I regard both Minister Hamilton and Minister Foster — they have switched roles — as ambitious and having high aspirations, and that is why I am so disappointed that they have accepted this report. This report has no aspiration, no ambition and is treading water. If you look just at our tourism industry, you find that it is inhibited by APD and held back. In my view, this region is discriminated against by APD. The response by Howard Hastings yesterday, or the day before, that he is going to invest £6 million of his own money to build a new hotel is the sort of optimistic, ambitious, high-achieving approach that I would like to see from everyone involved in our tourism and hospitality industry. That has to include connectivity.

To me, this report speaks of pessimism. We are talking about Dublin air tourism numbers in the years ahead. There is great work going on, yet we say, "By the way, we are just going to tread water and mess around at the edges". In my view, the situation needs bold steps. We may now be locked in to this. However, we have a new Minister, and maybe he will look at it anew. However, this speaks to me of low aspiration. I am sorry, I remain disappointed. I do not want to hog the conversation, but it is the most disappointing report that I have seen in a long time.

Mr Simpson: Let me respond just very briefly, Chair. Gareth said at the outset that their role is to produce an independent assessment of what the economic impact would be. The report is saying that, basically, there would be a small, marginal benefit. Really, what we want to do is to use the public finances that we have in the most effective manner. We all agree in the objective of trying to improve our air connectivity as much as we can. If we say that this is a small possible benefit, to be quite simplistic about it, in the context of reducing the block grant to reduce APD, if you put a pound in you will get a pound out.

Mr Ó Muilleoir: That is an academic argument. We need a spur to the international airport at Belfast. What if they said, "By the way, we are going to negotiate with you over the block grant. We do not even know what it costs, and when we estimated it last time, we were 100% out. We will estimate what the pain will be on your block grant. By the way, here is extra money to invest in your infrastructure"? The block grant point and where the pain would come through money coming in and going out just does not add up to me.

Mr Simpson: Let me follow up on that. We are trying to find the most effective and productive way of tackling this challenge. As Gareth says, the benefit is broadly equated to the cost; there is a small net benefit. It is effectively that you put a pound in, which is a pound coming out of the public finances. Those are paying for public services, which will deliver a pound of economic benefit. We would like to see a mechanism where we get more of a return for our public expenditure. For example, if there is potential for an air-route development fund, a pound invested in that could arguably be more effective in delivering air connectivity. I want to see us putting forward options that are the most effective. APD is one option, and the assessment here is that it is delivering only a small benefit. We would like to ask, "What is the best use of our limited public finances?"

Mr Girvan: I just feel that we are somewhat playing with a deck that is stacked against us. We do not know what the figures are. We have to accept what HMRC tells us is our APD take.

Mr Simpson: The figures are in the HMRC report, but we are not just blindly plugging those figures in. Gareth and his colleagues in York have looked at the figures and come up with an alternative scenario.

Mr Girvan: That is not the figure that HMRC gave.

Mr Simpson: Yes, and it is lower. They have run the analysis to find out what the benefit would be and what the case would be if we were to run with those figures. It is not that the analysis is just taking the HMRC figures as read; it runs a number of scenarios and comes out saying that there is not a strong case on either the HMRC figures or those produced by York and the University of Ulster. I assure the Committee that we are not just blindly taking the HMRC figures. On that point, as I said, we are working with colleagues in the other devolved Administrations on this HMRC report to try to see whether we can strengthen it and agree the methodologies so that we are all more comfortable that we understand how these figures are arrived at.

Mr Girvan: That is where I have a difficulty. We are not dealing with rocket science. I appreciate that it is telling you that it does not know what region the money comes from and that it just goes into a big pot, but I can tell you that it has the ability to tell you whether you owe 35p of tax. *[Laughter.]* As far as I am concerned, if it can do that, it knows exactly what is going on. It could tell you to within a few pounds where this is coming from, so, when we ask for information, it should not be hitting us with grossly inflated figures. I am not saying that this is the route that we will have to go down, but I would like some transparency and clarity on where we are coming from. I do not like somebody telling me that £5 million is going to be taken from the block grant, but when you see the final figure, you find that it ends up at £2.5 million. That is ludicrous.

Mr McQuillan: It is not a level playing field.

Mr Girvan: It is far from level. I feel that we are sometimes playing with a deck that is stacked against us every time. Everything is held over there in Whitehall. They have the control of what is going on, and they just feed you whatever they want you to know. They keep you in the dark and feed you certain things.

Mr Hetherington: In the research that we did, we absolutely did not just accept the HMRC numbers. That is why we developed our own estimates, which are just over £20 million lower. If a debate about

APD is going to start with Treasury, I think that our numbers are probably a place to start. It is the start of the journey; it is not the destination.

Mr McQuillan: This is just a quick point. I know that I was out for a lot of the debate, but it seems to me that, if this had been written maybe eight or nine years ago when money was a bit more plentiful, we would have got a different report. We are looking at it from a different angle now, because money is so scarce and things are tight.

Mr Hetherington: I do not know whether I accept that. In the analysis, the benefits are marginally greater than the costs. That is not a reflection of economic conditions now. If we were in a situation where the Minister in charge had more money or there was less pressure on budgets, perhaps they could afford to do APD and something else. However, you guys and the Executive are now under increasing pressure to get the absolute maximum out of every last pound. I am not sure that the report would have been materially different if it had been done eight or nine years ago, but I think that Ministers would have been freer to make different expenditure decisions. They could have had this and perhaps something else, but now it is "No, we cannot have both any more. It is one or the other".

The Chairperson (Mr McKay): Gentlemen, thank you very much.