

Welsh Affairs Committee

Oral evidence: [Devolution of Air Passenger Duty to Wales](#), HC 1575

Tuesday 29 January 2019

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Members present: David T.C. Davies (Chair); Tonia Antoniazzi; Guto Bebb; Ben Lake, Anna McMorris.

Questions 58 - 118

Witnesses

I: Robert Griggs, Policy and Public Affairs Director, Airlines UK, Susie Reckitt, Director of Strategy, Flybe, and Kate Sherry, Director of Route Development, Ryanair.

II: Ben Cottam, Head of External Affairs, Federation of Small Businesses (FSB) Wales, Ashley Rogers, Chairman of the North Wales and Mersey Dee Business Council, and Duncan Simpson, Policy Analyst, TaxPayers' Alliance.

Written evidence from witnesses:

- [Airlines UK \(APD0013\)](#)
- [Ryanair \(APD0011\)](#)
- [TaxPayers Alliance \(APD0005\)](#)

Examination of witnesses

Witnesses: Robert Griggs, Susie Reckitt and Kate Sherry.

Q58 Chair: A very good morning to Ms Reckitt, Mr Griggs and Ms Sherry. Thank you very much indeed for coming in this morning. We are doing a very short inquiry into the potential for devolving Air Passenger Duty within Wales, granting that power to the Welsh Assembly and the impact, good or bad, that might have for us and for Cardiff Airport specifically. We certainly do not want to put anyone on the spot this morning. While we will try to cover everything in the questions, if you feel we are missing some important piece of information, please feel free to throw it in.

You will probably be aware that we have picked rather a busy day parliamentary wise for this and, while normally these things can go on a little bit, the indication is that some of us will need to be in the Chamber for 11.30 am and we have two panels. I may try to speed things through a little, if that is okay.

I will just ask you first to briefly explain how airlines decide which routes they are going to fly and which airports they are going to fly from. Perhaps I should put that to Ryanair and Flybe first, in any particular order.

Kate Sherry: Thanks for having us. I am Kate Sherry. I am Director of Route Development at Ryanair. We are the largest airline in Europe. We will carry 142 million between 220 airports this year and we have five routes in Cardiff with around 40 million passengers to and from the UK.

In terms of selecting airports, for us as a low cost airline it is done on the basis of low costs and operational suitability. Can we actually fly into the airport, first of all? We come to a low cost agreement with the airport, we consider the all-inclusive cost of flying to the airport—so in the UK that obviously includes the cost of APD and any taxes, including handling at the airport—and because we are a low fares airline we can then stimulate passenger demand from that airport on the routes that are selected. We work with the airport then to select routes where there may be existing demand or there may be evidence of a potential route that could work well. That is how we select airports.

It is my role in Ryanair to make sure that we have more options than are necessary for the available and new capacity that we have. It is a very competitive market place and for us it is done entirely on the basis of low costs. I suppose that is what allows us to operate so many routes—we have more than 2,000 routes—but it also allows us to operate the routes other airlines would not think of or possibly that we have never heard of. I will not ask anyone to find places like Niš, Skavsta or Banja Luka on a map, but those are all airports from which we have managed to generate



and sustain large numbers of passengers because of the low fares, which in turn are sustainable through low costs.

Susie Reckitt: From Flybe's perspective it is quite a similar process. Flybe is Europe's largest independent regional airline. We fly more than 9.5 million passengers a year. Our network profile is a little bit different to Ryanair, so we tend to fly a lot of domestic routes. We are the UK's largest domestic operator. We operate more than 40% of domestic routes in the UK and we fly some shorter European routes as well. The process we tend to go through is we look at the demand side factors, so demographics, market size, and we tend to look at smaller airports that other airlines do not tend to be able to operate into. We have a majority turbo prop fleet so our Q400 aircraft only has 78 seats, which allows us to operate into much smaller airports than a carrier like Ryanair or easyJet might be able to operate with their narrow body jets.

We look for markets like this, but we will look for sufficient demand and customer willingness to pay and we look at the cost side as well. We look at airport costs. We look at factors like APDs, so aviation taxes that may exist in those jurisdictions and then we will look at the two in combination: will the margins be sufficient to operate the routes? How long will it take for the route to reach maturity?

As you can imagine, with smaller aircraft in smaller markets they tend to be more cost sensitive. A factor like APD—which is £13 on a European international sector—is quite a big impact and particularly for domestic where APD is £26 on a return trip.

Q59 **Chair:** Sorry, £26 on a return trip?

Susie Reckitt: Yes.

Chair: Right, thank you.

Q60 **Guto Bebb:** Just quickly, how does the process of collecting APD work for the airlines? If you decided to locate at an airport where it would apply, how does the process of collecting the APD work?

Susie Reckitt: It is relatively straightforward. We will price it into the fare, so we look at that when we are thinking about launching the route and we will make sure that that is included in the forecast for the yields that we are expecting to get.

From a back office point of view, we are moving to an automated process so we will have an algorithm that calculates how much APD we are due to pay based on who the passengers are or the routes to and from. We will work out how much that is and then that will be paid over to HMRC.

Kate Sherry: If I just may add? From Ryanair's perspective, it is a popular misconception that Air Passenger Duty is paid by the passengers; it is actually paid by the airlines. We do not price it into our fares. Our fares are set at the level at which we need to stimulate sufficient demand



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to fill an aircraft. If that happens to be lower than the price of operating the flight the APD is paid by Ryanair. Again, as Susie said, it is a back office function then to remit that money to the Government.

Q61 Guto Bebb: There are occasions when your margin on flights would be impacted directly by APD?

Kate Sherry: Definitely.

Susie Reckitt: Absolutely.

Kate Sherry: Our published airport and handling cost is €7 per departing passenger so, when we have to pay €15 in APD before we even start to talk to the airport or handlers, that definitely impacts the margins. Passengers in the UK are not willing to pay higher fares than passengers in other countries just because there is a tax.

Q62 Guto Bebb: Any routes that you have been running where the impact of APD has led to a decision to curtail that route?

Kate Sherry: Plenty of routes, yes.

Susie Reckitt: We have a quite recent example. We operated Cardiff to London City and initially we started operating at—

Guto Bebb: I thought that was the favoured route of the Secretary of State for Wales.

Susie Reckitt: Initially we started operating it because the train route had some significant rail works, so we thought, “We will give people an alternative and we will start flying it”. It was much more successful than we expected it to be. However, it is a very short sector. I think it was less than an hour and it is a domestic route, so there is £26 of APD in that return trip. When you are competing directly with road, directly with rail, which does not face the same kind of burden, it just became impossible to compete. We cancelled the route in 2017 and one of the major factors we cited at the time was the significant impact that APD had on the route.

Q63 Chair: It does occur to me—and I am not using the Secretary of State as an example, I hasten to add—that many of those who decide to fly from Cardiff to the City of London are presumably either frankly doing it for business purposes or, to be honest, are going to be in the wealthy bracket. Are they going to be that bothered about the cost of APD, the sort of people who decide to jump on a jet to go from Cardiff Airport to the City of London?

Susie Reckitt: When we operated it, I believe it was quite price competitive with the train alternative, so you do have people making a decision between the two different options. I couldn’t tell you exactly what the average fare was at the time—I would have to look that one up—but we had to be able to compete with intermodal transport to be able to make it viable, and I would imagine there is a very small



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proportion of people who would be willing to pay very high prices to fly from Cardiff to London City.

Kate Sherry: With a route like that—we operate a lot of domestic routes in other countries—you need to have a certain level of frequency to be competitive, which then leads to a certain level of capacity. There may be that core of people who are willing to pay for the convenience, but they also want the convenience of good timings and regular flights. That means you have more capacity than possibly that number of people and you need to be competitive in terms of pricing to attract people away from other forms of transport, including the road.

Q64 **Chair:** Did you want to come in, Mr Griggs?

Robert Griggs: I was just going to say that Airlines UK represents the trade association for UK registered airlines. On this point around route viability, we did some research last year looking to examine that and Airlines UK members were able to provide information about eight routes that had been established but were then dropped because of APD. That data was supplied to us confidentially.

When we ran the numbers it showed that with a reduction or abolition of APD, those routes that were not viable, depending on the scenario, were only viable with a full APD cut. What we were looking to do was to run some numbers on what we already know to be true anecdotally that APD is affecting airlines' ability to put on and then grow routes.

Q65 **Ben Lake:** Just to follow on, how have changes to the structure and the banding of APD had an impact on the way in which airlines choose routes? Can you elaborate on whether they have influenced any other decisions recently?

Kate Sherry: Not recently. I think it was 2005 that APD was doubled. That made a big difference to Ryanair as a low fares airline. Several of our domestic routes did not survive the doubling of APD, but there haven't been that many changes to the structure we fly predominantly within Europe.

We have considered some longer flights. We fly to Israel now and to Jordan. The rate of APD on those flights would be nearly £80, which, for an airline with an average fare of less than €40, is an enormous amount to try to add to the fare.

It is not really the structure. It is just the tax itself, the amount and the level that renders the UK less competitive for moveable capacity than the rest of Europe.

Robert Griggs: One of our members, Norwegian, had put on new routes out of Edinburgh to North America. They did that in anticipation of the Scottish Government's plan to cut their devolved version of APD by 50%. That has not happened and, because of that, a route has been dropped and on other routes the frequency has been reduced. That is directly



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attributable to the difference that APD made to the viability of those routes.

- Q66 **Chair:** Until I started reading the briefs on this, I had not realised how much this PSO is used in the UK. This is where we are basically subsidising airline routes rather as we do with trains. Mr Griggs, what percentage of routes in or out of the UK receive a subsidy like this?

Robert Griggs: I do not know.

Susie Reckitt: If I could come in on that one? In Europe there are over 170 PSO routes. In the UK there are 22 of them: 19 of these are in Scotland, one is in Northern Ireland, one is in England and one is in Wales. The one in England is Newquay up to London, which is operated by Flybe. Then the one Welsh PSO is Cardiff to Valley airport, which is operated by our partners Eastern Airways.

- Q67 **Chair:** It does seem a bit odd that on the one hand the Government are charging Air Passenger Duty and on the other hand they are subsidising certain airline routes. It is taking off with one hand and giving with the other.

Susie Reckitt: If you look at the number of PSO routes in England and Wales, there are just two compared to 22 in the whole of the UK. It is disproportionately biased towards Scotland, which is partly geography. An alternative would be to look at either reducing or removing APD, which would significantly increase the viability of many of these routes beyond existing PSO support given today.

- Q68 **Chair:** Could the Anglesey to Cardiff route work without the PSO?

Susie Reckitt: I would not be able to comment on that because it is not operated by Flybe.

- Q69 **Guto Bebb:** In terms of the situation in Scotland, with APD devolved in the Scottish context, is there frustration within the sector that the Scottish Government have not gone down the route of changing APD? You highlighted the fact that Norwegian Air decided to locate a particular service in Scotland to take advantage of potential changes to APD that then did not happen. The fact that Scotland does lend itself to internal flights as well that are affected by ADP, is there frustration within the industry about the lack of movement in Scotland?

Robert Griggs: From the industry space, yes, there is. Our priority for APD, we think there needs to be a UK-wide solution first and foremost. Since it was brought in, APD has gone up about 10% a year on average compared to an average 2% GDP growth. It is an absolute priority for the UK aviation sector that ADP is addressed. We are looking to emphasise that through the response to the Government's Aviation Strategy Green Paper that is currently out for consultation. It is a source of some frustration that within that document APD gets less than half a page and



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it is seen as a Treasury point. We think it should be integral to a UK-wide strategic view on how to make the UK aviation sector thrive.

In the Scottish example there is some frustration. For airlines directly affected, clearly there will be frustration but we welcome the fact the Government have recognised the impact that APD has on connectivity. Airlines UK did some work that showed that Scottish connectivity—based on the levels of APD it was subject to—is pretty poor compared to countries of comparable size.

We will be looking for progress on that as soon as possible, once the issue around the Highlands and Islands' exemption can be resolved. I understand there is quite a bit of back and forth between the Scottish Government and the Treasury about that.

Q70 Guto Bebb: In terms of the complexities you touched upon, if there was a decision to devolve APD to Wales, do you think that a decision by the Welsh Government to abolish APD would make a significant difference to Cardiff Airport and how confident are you that that would be a development in terms of more choice for the consumer?

Susie Reckitt: From Flybe's perspective, lead-in fares at Cardiff are the lowest fares we offer at £25.99 and 50% of that is APD. Looking across the Flybe network, for domestic routes on average 33% of the ticket price is made up of APD and for international it is 15%. A reduction or a removal has potential for significant impact at particular airports like Cardiff, which are a bit smaller and a little bit more cost sensitive than some of the larger airports.

Kate Sherry: From Ryanair's perspective, as a pan-European airline, in our world the UK airports compete for capacity with other airports across Europe. Therefore, no APD in Cardiff would make the airport much more competitive when it comes to securing capacity. If we look at the profile of the airport, at the moment it is predominantly low fares or low cost carriers so APD represents a larger proportion of the fares.

It would make the airport considerably more successful—particularly in these times when there is a lot of uncertainty—to open the airport for business, a Government-owned airport, and say, "We want to do business with airlines. We want to grow our passenger numbers. We want to create jobs". With low cost airlines, for every 1 million passengers there are 750 new airport jobs created plus the associated support jobs in a region. It would have a positive effect, both on Cardiff Airport and the region, and it would allow the airport to make up some of the ground that it has lost over the years to other airports, particularly Bristol. There is a huge amount of leakage from the South Wales region into Bristol.

Q71 Guto Bebb: The evidence we have heard about the impact—we are talking about £6 million of APD in a Welsh context—the evidence you are presenting is that the utilisation of Cardiff could change quite dramatically if there was no APD?



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Kate Sherry: It could. The airport would become much more competitive.

Q72 **Guto Bebb:** Would that be cannibalising from Bristol or would that be generating new capacity, which would be independent of any moves from other airports?

Susie Reckitt: The difference in scale of the two airports at the moment is sizeable. Cardiff is about 1.5 million passengers a year and Bristol is in excess of 8 million passengers a year. In my view, it would take quite a big distortion to be able to counter that massive scale difference.

Kate Sherry: The UK is a very densely airport populated country. If we look at airports that manage to co-exist very well, like Liverpool and Manchester—even Glasgow and Edinburgh—they are probably closer than Bristol and Cardiff, so I think Cardiff has growth potential on its own without needing to cannibalise Bristol.

Robert Griggs: We know that the passenger projections up to 2030 are in many ways healthy. It is just that there is going to be a growing demand for passenger services from the UK, which is obviously a welcome thing for the sector. Our counterpoint to that has been we cannot take that growth for granted. The UK was the only country last year that saw a reduction in our direct connectivity. We do not want to fall behind and we need to be able to enable that growth. We do not have any specific numbers for Cardiff, but the report I alluded to previously essentially went into how when you reduce APD it makes those routes that were not viable, viable and it makes it easier for airlines to increase the frequency and reduce the cost per ticket of routes that are established. Those forces would come into effect anyway, we think, where there was an APD reduction, subject to the specific circumstances.

Susie Reckitt: That in turn not only would attract existing demand but would stimulate new demand as well.

Q73 **Ben Lake:** Something that was suggested by the Silk Commission report back in 2012 was that, if APD was devolved to Wales, an administrative burden would be placed on operators rather than HMRC. From what you have said this morning, it does not seem it would be much of an issue in terms of any added administrative burden. Is that right to say?

Kate Sherry: We operate in 37 states, all of which have different peculiarities. There would be some administration involved but it certainly would not be such a barrier as to be a factor in the decision-making process.

Susie Reckitt: I agree. There would be some upfront work but it would not be significant or lasting.

Q74 **Ben Lake:** Just to return to what my colleagues have just been discussing in terms of if there were, say, for example, an abolition of APD for Cardiff, are we talking about a stimulus in terms of passenger growth



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but also new routes? Can you envisage certain routes perhaps? I do not want to tempt you to name any specifically, but would you see an increased range of routes from Cardiff as well as increased passenger demand?

Susie Reckitt: Certainly routes that are not currently viable we would want to look at again. For example, Cardiff/London City, if APD was a factor in the cancellation of that route we might want to revisit the business case for that route. Equally, there are other routes that may not currently be viable out of Cardiff or out of other airports that may become viable. It is hard to know without doing work on it.

Kate Sherry: From our side our five routes are all leisure routes. They are all routes that we would hope to be towards the higher end of our average fares, places like Malta, Malaga, Tenerife, and Faro. If the all-inclusive cost at the airport was lower that would allow us to consider other routes. In preparation for this session I looked at some Welsh tourism statistics. The top three source countries for tourism—as I am sure you know—are Ireland, France and Germany.

France is the second largest country for inbound tourism into Wales but the airport only has one French route. It seems that the French people visiting Wales are making quite an effort to get there. They want to come, but it would seem that they are coming to England and making a day trip to Wales or a short trip. That is a phenomenon we have also seen in Northern Ireland where most of their visitors come via the Republic and make a short visit to Northern Ireland. More routes would possibly change the balance a bit towards more inbound visitors for business and tourism, which would obviously give a boost to those industries as well. That could come into the frame.

Q75 **Chair:** Ms Reckitt, you have already told us that you are getting very low returns—almost no returns it seems—from the flights that you arrange given prices and the APD. Are you receiving other subsidies from the Welsh Government in order to encourage you to fly out of Cardiff?

Susie Reckitt: We have a commercial partnership with Cardiff Airport that began back in 2015. We established a base at Cardiff and we have a risk share agreement with Cardiff Airport. That is based on sharing returns where we are profitable and where we are not profitable with the airport. It would depend on the season or it would depend on the routes we were operating as to the balance of that.

Q76 **Chair:** If there isn't a return Cardiff Airport becomes liable to pick up the loss then effectively?

Susie Reckitt: It is a share. We would share the downside in the same way we would share any upside.

Q77 **Chair:** That must be permissible under state aid rules. I am surprised it is quite so blatant—if you do not mind me saying—that Cardiff Airport and the Welsh Government can subsidise an airline.



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Susie Reckitt: I am not sure if I can comment much on how it relates to state aid regulations but our agreement isn't with the Welsh Government. It is with Cardiff Airports.

Q78 **Chair:** Bristol Airport has been raising a concern about devolving APD to Wales and the potential effect it will have. Do you agree with that and, if APD was lowered in Cardiff, would you be taking business away from other airports, including Bristol if you operate out of there?

Susie Reckitt: We do not currently operate out of Bristol.

Q79 **Chair:** Potentially then from other airports in the UK?

Susie Reckitt: It is hard to say without knowing what the future situation is likely to be. Aside from Bristol and Cardiff, the nearest airport is probably Exeter and that is quite a distance away. They are not directly substitutable, so it is unlikely.

Q80 **Chair:** What about you, Ms Sherry, would you consider taking business away from Bristol?

Kate Sherry: I don't think so. Bristol is a large airport and it is highly competitive, so that is not a particular concern that would play out in reality. We have a very competitive presence at Bristol Airport and a lot of our routes there are very well established. We have been operating at the airport since 1997. We have a base there and, although the airport has submitted a planning application to expand, it is almost full and it is fairly short of new capacity. Most airlines would want to maintain their competitive presence.

Of course there is overlap with the catchment areas but I think if Cardiff competed with the airport and regained some of that catchment, it would probably lead to lower prices and more choice for all passengers within both catchment areas rather than the current situation. You see a lot of Welsh passengers travelling to Bristol because of the competitive presence that has been built up there, which gives them a lot of choice and very low prices.

Q81 **Chair:** What I think you are both saying is that we would see not a move from Bristol to Cardiff but extra flights generated to extra places within Wales?

Kate Sherry: I think you probably would. In reality, there are actually very few routes from Cardiff. For a region with more than 2 million people in its catchment area it has very few routes. If you look at the ratio of passengers to population, the average for the UK is about four and half passengers and that is with APD. In Cardiff it is significantly less than one. I believe that the airport has a lot of catching up to do before it even reaches its natural potential and starts competing or overlapping with Bristol.

Q82 **Guto Bebb:** Could I follow up on the question asked by the Chair? In terms of the partnership agreements that Flybe have with Cardiff Airport,



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does Ryanair have similar agreements with other airports that are owned by local authorities or Governments in other parts of Europe?

Kate Sherry: We don't receive any subsidies. We have commercial terms with all airports that we fly but, no.

Q83 **Guto Bebb:** Was there not a case in Belgium with Charleroi Airport that was an issue?

Kate Sherry: No, I don't believe it was an issue in Charleroi. We have over 6 million passengers in Charleroi and we have a very low cost deal at the airport. That is because we bring a lot of efficiency to the airport and a lot of non-aeronautical revenue. We did not have any kind of similar issue and we do not have a deal, like the one that Susie described. We have commercial terms with the airport, like we do with all airports that we fly to. There are state aid investigations from time to time but those investigations look at the airport and their financial plans rather than the deals.

Q84 **Guto Bebb:** I just remember picking something up a long time ago and the Chair's question just—

Kate Sherry: I think there was something a good few years ago but not recently and not really related to this.

Q85 **Guto Bebb:** Every agreement you have tends to be on a commercial basis then?

Susie Reckitt: In the same way that our relationship with Cardiff is a commercial agreement rather than a subsidy.

Q86 **Guto Bebb:** Yes, there was no criticism by the way. I was just trying to identify whether opportunities to grow Cardiff on that basis would have a potential problem in the future.

In terms of the recommendations of the Silk Commission, one of the recommendations was that we should be starting off with devolving APD for long haul flights. I am not sure whether that is a realistic proposition in the context of Cardiff, but is there any view as to that proposal?

Robert Griggs: From an Airlines UK perspective, we do not like to differentiate between the two. We think there are important arguments around both. For short haul £13 is a lot and double taxation is a particular problem—so there is a domestic issue there—and long haul £78 going up to £80 is a significant absolute number and it is a significant percentage of your average ticket price for a long haul route. As I said, for us the priority is we still want to see UK-wide measures on APD. Airlines are very keen to generally avoid distortions. We want a level playing field and to be able to compete on that. We would like to see approaches that cover both.

Long haul is hugely important. We did some work last year looking at a snapshot of the value of air freight to the UK economy. It might seem slightly tangential to the debate today, but one of the things that it found



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was the advantage of growing your commercial long haul routes is that the majority of air freight out of the UK goes in the belly hold of passenger aircraft. Apart from Ireland, the UK is more dependent than any country in Europe on air freight as a percentage of the value of our trade.

You will have seen where there have been new routes out of Manchester, for example, and exports out of that region increased significantly as a result of those new routes, so where there are additional long haul routes—it is not simply that you are connecting people to new holiday destinations or business links—you are helping that local and regional economy to grow.

One of the interesting findings specific to Wales was that the piece of work we did showed that 8.7% of Welsh GVA is directly attributable to air freight exports. It would not exist if there wasn't an ability to ship airfreight that way. It speaks to our argument as to why, if you make the UK more competitive and enable more long haul routes—however you do that, and we would like to see that through an abolition of long haul APD across the UK—and put on more routes at Manchester, Bristol and Cardiff, you are likely to help exporters in the Welsh economy as well as other English economies and the rest of the country. There are a myriad of related benefits of addressing APD on that UK-wide scale.

Susie Reckitt: From a Flybe perspective, looking only at long-haul APD misses a huge opportunity for short-haul APD. It makes up such a large proportion of total ticket values. There is undoubtedly going to be a big stimulation effect from reducing it or removing it all together.

Kate Sherry: It is difficult to see why the Commission recommended abolition of long haul only. From my reading, it is only that it might be less difficult to achieve. I know it was done in Northern Ireland but that was in response to a threat from Continental Airlines to cancel their Newark service, which they subsequently did anyway. In Cardiff 93% of the capacity is to Europe and to ignore the chance to grow that, and instead focus on some possible new long haul route, seems to me to be missing an opportunity. I think that would be a half solution that possibly discriminates against short haul airlines.

Q87 **Guto Bebb:** To follow up with Mr Griggs very quickly, I have heard you say on two occasions now that you would prefer to see APD dealt with on a UK-wide basis, which is perfectly fine from an industry perspective. Would you in any way welcome the competition that might come from the devolved Governments taking a lead?

Robert Griggs: It is a tricky one. We are concerned about some of the potential distortive risks of having a patchwork of different APD regimes within the UK. I do not want to understate that and that is why we do want that UK-wide solution. On the other hand, we have considerable sympathy for any Government that, as I said, recognises APD as an issue and wants to address it. We see both sides.



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Q88 Ben Lake: You have already mentioned this morning how APD is more of a burden on lower cost airlines. What would your thoughts be to the suggestion that perhaps a fairer way of taxing airlines would be to put VAT on tickets?

Kate Sherry: Aviation is a very competitive international industry so however a tax is applied it would render an airport less competitive. If APD was changed into a different structure or a different name put on the tax it would have the same effect. I do have a few issues with the structure of APD, in that I think it is particularly unfair to low-cost airlines and those that operate efficiently with large aircraft that are full of passengers given that it is a flat tax. However, the main issue is that it increases cost and it makes the airport less attractive. Therefore, replacing it with a different tax that had the same effect would probably not achieve anything and would leave us with the status quo—but a more complicated status quo—in the UK.

Robert Griggs: My understanding is that European legislation recognises passenger transport as a unique thing, so VAT is not levied on international flights and there is discretion within the domestic setting for reducing domestic levels of VAT. The point for us on that is UK airlines are not that competitive as they are not necessarily advantaged because of the VAT regime that is applicable at an international level. APD is very much seen as on top of that.

Q89 Tonia Antoniazzi: What countries in Europe have a similar tax to APD and how do their rates compare with the UK?

Kate Sherry: APD is the highest aviation tax in Europe. There are countries with aviation taxes, most notably Germany and two Scandinavian countries with Norway and Sweden having aviation taxes. I think the tax in Germany was brought in in 2011. It has had a very similar effect to that in the UK, in that it has held back some growth and has also consolidated traffic and growth towards the main airports at the expense of the smaller regional airports.

There are countries that have tried aviation taxes and abolished them. The Netherlands introduced a tax in around 2007 or 2008—I will check the exact date—and abolished it within one year because it had an adverse impact on their economy of €1 billion, even including the revenue from the tax. Obviously their profile is slightly different. They leaked a lot of passengers to Germany that did not have a tax at the time.

The best example is probably Ireland. Ireland introduced an aviation tax in 2008 and, until it was reduced to zero in 2014, there was a reduction of 6.1 million passengers across the Irish airports. It was removed in 2014. All the main airlines—especially Ryanair—responded with growth in traffic and traffic is now well in excess of 2008 levels, such that Dublin Airport will hit 32 million passengers this year.



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There is a trend across Europe that those countries that introduce aviation taxes—I think the UK's is probably the oldest—do see that their traffic is initially reduced. Growth then focuses on the main airports and large trunk routes to the detriment of the regions and some of the more niche routes. Those countries that have abolished aviation taxes have been immediately rewarded with large scale and sustained traffic growth.

Q90 **Tonia Antoniazzi:** What countries beyond Europe?

Kate Sherry: As a short haul airline we mostly focus on Europe. There is one country in particular I could talk about with some certainty, which is Jordan. We have recently started flying to Jordan. They have an aviation tax in the order of US\$48. The Government publishes a scheme where they pay that aviation tax back to airlines starting new routes.

This is a trend we often see across new airports in Europe. They build a new airport that is very large and very expensive to fly to. Traffic falls as a result and then the Government introduces an incentive scheme that is equal to the increase in the price. The Government ends up almost subsidising the airport, not the airlines but the airport. This is the situation we are seeing in Jordan with their passenger tax. The Tourism Board incentivises airlines to pay the tax so the money moves round in a circle within their economy.

Q91 **Tonia Antoniazzi:** Do you think that system works well?

Kate Sherry: No, it is unnecessarily complicated. We have 14 routes to Jordan. It is not exactly big but it is very complicated. It turns into large amounts of money and I think in Europe there would probably be state aid issues with such an arrangement anyway.

Q92 **Chair:** That brings me onto Brexit. I presume after Brexit—particularly if we have a clean Brexit—we will not be quite so constrained by state aid rules, will we? Therefore maybe Ryanair should be excited by the prospect of getting rid of state aid rules?

Kate Sherry: No, I do not think so. State aid rules are there for a reason. They are there to avoid unfair subsidies, unfair treatment or discrimination. Therefore, no, we are not excited by the idea of receiving any state aid, far from it. We want to operate in a fair, open and transparent market. I think you could abolish APD without any state aid issues. No, I am not excited at the thought of circumventing the rules that are there to protect consumers and to ensure fair and open competition.

Q93 **Chair:** Does Ryanair take those rules from the European Union very seriously then?

Kate Sherry: We do take them very seriously, absolutely. We often find ourselves on the wrong end of state aid given to other airlines. If we look at state aid it is mostly given by countries to their own ailing flag carriers.



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As an airline that competes in most countries in Europe, that is detrimental to fair and open competition with ourselves.

Q94 **Chair:** Ryanair has been quite critical of the compensation rules the European Union brought in.

Kate Sherry: Yes, but that is a different topic. Yes, we have been. We are the insurer of last resort. We had unprecedented air traffic control disruption last summer and we expect it to continue this summer. If flights are cancelled because the air traffic controllers cannot provide a service, the airlines then become responsible for compensating and caring for those passengers. That is not the case if your train is cancelled because of leaves on the line.

Q95 **Chair:** No but these are EU rules, are they not, which Ryanair is rather keen to apply in a fairly effective fashion, I think it is fair to say?

Kate Sherry: We think the rules need to be changed and I think most airlines agree on that. That is an initiative led by Airlines for Europe of which we are a member but so are many of the flag carriers. EU 261 compensation is a major issue for all airlines and is totally separate from state aid.

Q96 **Chair:** I hope you will not mind me saying that I entirely understand your assertion and I think I rather agree with you. Nonetheless those rules are in place and, certainly in my experience, Ryanair does its utmost to avoid following those rules. Basically when I have experienced delays myself, and legally been entitled to compensation from Ryanair, I have just been given the run around. Told to go and sue it and all the rest of it, which of course I have not bothered to do. However, those are the rules the European Union has put in place. They may well be incorrect and unfair—and I think they probably are—but those are the rules. It surprises me that Ryanair is so keen to support an organisation that has rules that Ryanair is not prepared to follow itself.

Kate Sherry: We do follow all of the rules. Sometimes the disagreement is how the rules apply but we do follow all of the rules. If there are any specific cases I would be very happy to follow them up.

Q97 **Chair:** I would not take up my own with you. It would not be fair.

Kate Sherry: If you wanted us to look into—

Chair: I will show you for demonstration purposes but I would never—

Kate Sherry: Of course. If you wanted to continue that example, have us look into it and explain that as an example, we would be very happy to do so.

We apply the rules. I believe there is sometimes disagreement, possibly around interpretation or how the rules apply but we do apply the rules. I suppose we can be supportive of Europe without having to accept every single rule that applies.



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Chair: Yes, music to my ears. I quite agree.

Kate Sherry: We can possibly raise issues about rules that should be changed while following the rules as they stand.

Chair: On that note of almost agreement, I would like to thank you all for coming in. I am sorry we have to cut it a bit short but we obviously have to go back to dealing with Brexit shortly. Thank you all very much indeed.

Examination of witnesses

Witnesses: Ben Cottam, Ashley Rogers and Duncan Simpson.

Q98 **Chair:** Good morning, Mr Simpson, Mr Cottam and Mr Rogers. Thank you all very much indeed for coming in. Obviously you have heard what we are doing and time is a little bit short. Therefore, if you do not mind, I am just going to dive straight in and ask each of you what impact you think Air Passenger Duty has had on businesses operating in South Wales and obviously on Cardiff Airport?

Ben Cottam: The impact of APD on businesses is more about the constraints on airlines to create routes that generate opportunity for businesses to trade either within the UK and overseas in Europe and further afield. Anecdotally we will get complaints about the levels of fares. For instance, it has often been cited that it is cheaper to go to Bristol Airport than it is to access flights at Cardiff Airport. These sorts of issues constrain the ability of airports to attract competitive flights.

For instance, it is very difficult to get an in-time route to get up and back from Glasgow in a day for a meeting whereas it is possible from Bristol. Those are the sorts of impacts that we hear from businesses. As we have just heard from the airlines, we know that APD has a material impact on their ability to generate and maintain some of the routes. It is probably one step removed in terms of direct impact on businesses, particularly small businesses.

Ashley Rogers: I would say Ben is right. You are talking about international connectivity, "How can I get to my customers in the export market?" Cost is also an issue, especially for the tourism sector where people will compare different destinations, "Should I go to North Wales or South Wales or France, Germany or wherever?" When you are talking about an extra £80 to £90, something like that, it can have an impact on where they choose to go as the world is literally their oyster. It is about international connectivity and cost, which affects export markets and tourism as well as bringing students in for our universities from overseas.

Duncan Simpson: I do not have anything specific on South Wales businesses. It is probably helpful to restate our position. We are not sympathetic to the devolution of APD to the Welsh Assembly. We think



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that for three reasons. First, we think it has to be addressed much more holistically. A lot of your constituents—particularly in Mid Wales and North Wales—make use of English airports, so a holistic approach to address that is more worthwhile. Our ambition is a UK-wide approach, a UK-wide reduction of 50% and then a full abolition.

Q99 **Chair:** Do you think that abolishing APD across the UK would pay for itself in terms of a bigger economy, more flights and more people using flights?

Duncan Simpson: I would not like to be exact about it. I think there was a study by Oxera Consultancy in 2009 that stipulated precisely that. I think the level of investment would increase by about £5.5 billion. Obviously there would be revenue loss. Last year it was about £3.5 billion for APD. As the Airlines UK representative was saying, if there was abolition you would likely see a big growth in new routes so it would certainly have an impact on that.

Q100 **Chair:** You have just mentioned Mid Wales. Your position is that just reducing APD in Cardiff would unfairly give Cardiff an advantage over other airports such as Bristol or the ones used by people in Mid Wales, presumably Birmingham and Liverpool?

Duncan Simpson: You could arguably say that Cardiff Airport is already benefiting from a pretty distinct competitive advantage in a few areas, one of which is obviously ownership by the Welsh Government and numerous cash injections and loans over the years that have been quite significant.

Q101 **Chair:** Bringing down APD would give it an even bigger advantage?

Duncan Simpson: Correct. The second part of the advantage is the PSO as well between Anglesey and Cardiff.

Q102 **Chair:** That advantage would mean more people using Cardiff Airport as opposed to other airports?

Duncan Simpson: Potentially, but again the holistic approach is important. The 2015 data from the annual survey the Civil Aviation Authority did, which is the most recent one affecting Cardiff Airport, showed that in North Wales there were pretty much no users of Cardiff Airport. In Powys I think it was 1% and in West Wales it was just under 5%. We see this time and time again. The 2003 White Paper from DfT indicated that the usage of Cardiff Airport from passengers starting in Wales was about 30%.

Q103 **Chair:** Do you believe that cutting APD in Cardiff would mean more passengers using Cardiff Airport?

Duncan Simpson: It is entirely possible.

Chair: From our point of view that would be a good thing.



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Duncan Simpson: If you look at the evidence from Bristol Airport—the research done by York Aviation—it says it would be quite disastrous for the airport. Conversely, the research commissioned by the Welsh Government was quite clear on the benefit accruing to the airport. Therefore I would not want to be exact in terms of, “Here are the new routes that are going to be accruing to Cardiff Airport”. Again, it is the holistic approach because most people in Wales do not use Cardiff Airport.

Chair: I must not take advantage. Thank you for that.

Q104 **Anna McMorris:** Ashley, what benefits do you particularly see to businesses in North Wales if APD was devolved?

Ashley Rogers: I will agree with Duncan here, in that our position is we would like to see a reduction in APD across the UK. If that is not possible then we would support devolution of APD to Wales. The benefits to North Wales are pretty much zero, being honest.

Q105 **Anna McMorris:** Why is that?

Ashley Rogers: Because 91% of North Walians use Manchester and Liverpool. If you take a very straightforward—if I can use a brand name—Google map and go from Dolgellau, which is almost the most south-west part of North Wales, you hit Manchester and Liverpool first, Birmingham second and Cardiff last. No one uses Cardiff Airport so there is no direct benefit for us.

There is an indirect benefit for the brand of Wales. It is good to have the kind of open-for-business attitude that it would give Wales for trade and investment. There is one small benefit if APD is devolved and it is abolished for North Wales, which is around Hawarden Airport where Airbus operates a staff shuttle and pays APD. Other than that it is brand and image, but there is no direct net benefit for North Wales.

Q106 **Anna McMorris:** Do you not think—as the previous First Minister for Wales set out very clearly—it would benefit airports in North Wales because there could then be increased traffic to Cardiff Airport and increased business in Cardiff Airport, which would mean more routes? That would mean there being more possibility of hopper flights coming to Cardiff and then on. That is very clearly what the First Minister said. That is what businesses have said. That is what Cardiff Airport has said. That surely would lead, particularly in the north-west of Wales, to it being much easier to hop on a short flight to Cardiff and then off wherever they want to go in the world.

Ashley Rogers: It sounds good in theory, but Manchester Airport has 220 destinations worldwide and Liverpool is rapidly catching up.

Anna McMorris: It is cheaper in Cardiff because we have abolished APD.



Ashley Rogers: If you base it on what is the quickest way for me to get to my destination, regardless of if it is a little bit cheaper in Cardiff, you will still go with the most obvious choice.

Anna McMorris: It takes quite a long time to get from Anglesey to Manchester.

Ashley Rogers: It is almost exactly the same as it is to drive to the airport, park, go through security and then fly to Cardiff. For us it is a question of what is the easiest and most cost-effective way, which is not to fly to Cardiff.

Q107 **Anna McMorris:** Ben, in your campaign for devolution of APD, are you concerned about your members across the whole of Wales, do you consider North, West and South Wales or are you primarily campaigning on behalf of the South Wales membership?

Ben Cottam: No, on behalf of all Wales. I think we are pragmatic about the level of benefit that derives directly to members from North Wales from using Cardiff as an air gate.

I think you make a compelling case for Cardiff as an international gateway to the western portion of the UK. There is definitely opportunity there. It seems in the conversation today that we have not considered how a better operating and more competitive Cardiff Airport can serve as an economic development asset to project the Welsh brand that then benefits businesses wherever.

As we go forward and exit the European Union, we are going to have to work harder. We will have to sweat more to raise the brand profile of Wales and all the regions of Wales. A fully functional and credibly competitive international airport is part of that infrastructure that one would want to see. Even if you look at the notion of the Great Western Powerhouse, for instance, Cardiff represents the only viable proposition for an international airport should you have the devolution of long haul APD and then seek international flights. Therefore, again, it is part of what one would want to see in a competitive region.

I do not think we can look to Birmingham or Manchester to take that role on behalf of that region. There is an opportunity to look at Cardiff Airport particularly as part of strategic infrastructure for economic development.

Q108 **Anna McMorris:** Would you agree that the UK Government's reluctance and refusal to devolve APD is putting an unjustifiable constraint on Wales, on its economy and potential for growth?

Ben Cottam: We have always seen as incongruous the fact that that was the omission in the adoption of the Silk Commission. FSB supported the full adoption of the Silk Commission recommendations. It has always been a little bit incongruous. From the work that I do, I am very aware of the presence of the lobby for Bristol Airport but I think we would agree—although we have no expert analysis of our own—with the NorthPoint



Aviation Analysis that shows it would have a relatively limited impact. Even if you just look at international traffic there is something that Cardiff can do that is complementary to Bristol and the region rather than displacing. That is one of the bits of the Silk Commission puzzle that is yet to be put in place but we feel should be put in place.

Duncan Simpson: For the East Wales region, which has a NUTS 2 classification from the European Commission, the most recent data from 2016 indicated the volume of goods was less than 1,000 tonnes. I think from 2014 to 2016¹ it has never exceeded 3,000 tonnes. Obviously APD is levied on passengers rather than goods, but I think that is quite a telling indicator in terms of the current utility of Cardiff Airport. It is entirely possible that abolition could further stimulate demand for services exports rather than goods. I think the current utility of Cardiff is highly debatable, particularly for the export of goods.

Q109 **Guto Bebb:** A question to all of you, but I will start with Ben: what sectors of the Welsh economy do you think would benefit most by the devolution of APD and I suspect the abolition of APD if it was not devolved?

Ben Cottam: It is difficult for us to pin down sectors. However, even if you look at short-haul connectivity or European short-haul connectivity you have areas that we are trying to develop in Wales, such as life science and even creative industry, which could benefit from greater links. I was at Cloth Cap Productions in Cardiff some time ago. The proportion of work they are bringing in from Chinese and other far eastern markets, for instance, was interesting. Better international and even European connectivity will benefit any business.

We need to bear in mind that, even though we are encouraging businesses to seek export opportunities internationally for the vast majority of my members, EU member states will still continue to be the greatest proportion of likely proposition in terms of export markets. Previous witnesses pointed out that France—a significant tourism market for us—has only one link to Cardiff. However, necessarily, it is a significant market, as is Germany, for export activity. We do not have the capacity at the moment to create those links. If you look at areas like life sciences, manufacturing and creative industries there are some particular opportunities.

I am also more interested in that narrative and conversation about seeking all businesses, in whatever sectors, to look at export and international trade opportunities. Clearly, if you are looking at international connectivity, a link to North America represents real significant value given some of the specialisms, for instance IQE. You can see where access to the North American market directly could promote

¹ Correction by witness: 2004-2016 see data: [Legal Notice](#)
[Air transport of freight by NUTS 2 regions](#)



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trade links that would benefit certain sectors more than others, but that would benefit the whole projection of the Welsh brand anyway.

Q110 Guto Bebb: On that issue, I am pleased to hear Ashley's comments about the support you would offer to devolution. From my perspective, the cost of devolving APD has reduced quite dramatically.

In terms of awareness of Wales as a brand, has there been any evidence presented to the North Wales Growth Team in terms of how that brand awareness would be improved by the abolition of APD in the Welsh context?

Ashley Rogers: If you have a strong message that we are—I hate using this expression, it is overused—open for business, and you can use every single element in your toolbox to get that message across, abolition of APD would certainly help. With the first direct route to China from Manchester Airport, we have seen that by simply establishing a route—most airlines take a gamble when they put a route in for the first time—Chinese tourists are coming into, for example, Cheshire Oaks and spending £2,000 to £2,500 per head buying what is available anywhere else in the world. However, because it is all in one place, packaged up, nice and a great asset for the north-west they are choosing to come to the UK just on that basis.

Every little element you can use to get your brand across—for Manchester whether it is Manchester United or Cheshire Oaks—for Wales would be really important. Abolition of APD, as the highest long haul APD in the world, would certainly help.

Coming back to Anna's point about Cardiff Airport and whether it would benefit North Wales, it does not necessarily have to benefit North Wales. If it benefits Wales as a whole we get some benefit from that. Therefore, we should certainly be supporting the growing of Cardiff Airport and APD abolition would certainly go a long way to doing that.

Q111 Guto Bebb: A question to Mr Simpson, obviously I share your aspiration to reduce taxes as such. While I understand the arguments you make for APD to be dealt with on a cross-UK basis, I have always argued that my local authority should be proud of the fact that it has a lower council tax than the neighbouring authorities. In that respect, if the power to vary APD was given to the Welsh Government, would you welcome the possibility that Welsh Governments could lead the way in terms of reducing APD and highlighting the economic benefits that you have touched upon in your paper?

Duncan Simpson: I do not dispute that it would certainly benefit some passengers and businesses in South Wales. My concern with the cross-local authority comparison is that I do not feel it would stimulate good tax competition.

You have £6 million of revenue from APD derived basically from Cardiff Airport out of a £3.5 billion total. However that is dealt with between



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Cardiff Bay and Westminster—whether it be reduction of the block grant, compensation or nothing at all—HMRC is not going to be overly fussed about the revenue lost from devolving APD and potential abolition.

Our concern is that, if they were just devolving it to Cardiff Bay—a reduction and then a full abolition—that kind of conversation would not be happening in Westminster, so English airports and users of English airports across Wales would not benefit from a similar cut that Cardiff had been advantaged by. That is why we feel very strongly that APD has to be addressed on a UK-wide approach. The ambition should definitely be abolition post-Brexit.

Q112 **Guto Bebb:** On the issue of dealing with it across the UK, has the horse not already bolted in fact?

Duncan Simpson: Yes, to a certain degree. There are difficulties with Scotland, as was alluded to by a previous witness. That point is quite important. The transfer of that and the bureaucracy required for HMRC is not too difficult. The problem is particularly the PSOs, from the Scottish mainland up to the islands. I do not see why a similar kind of concern would not be raised in Westminster if that was also eventually transferred.

In the Northern Ireland experience with the abolition of long haul APD we have not seen an increase in long haul flights. I think there is one seasonal journey to Florida by Virgin Atlantic from Belfast International. There has not been a dramatic increase in long haul journeys from Belfast. Obviously the circumstances are quite distinct. The Republic has abolished its aviation tax. However, on the basis of the existing evidence across the UK, in both Northern Ireland and Scotland, the big upturn in demand and bureaucratic ease of that happening has not yet materialised.

Q113 **Chair:** Is there any disadvantage to people in the South Wales area from devolution of APD?

Duncan Simpson: Like I said, some passengers would benefit. From the most recent data—the 2015 CAA survey data that I am happy to send over to the Committee—I think it was about 42% in South Wales made use of Cardiff Airport. Therefore, even in South Wales, the majority of people are not using Cardiff Airport.

Chair: Is there any disadvantage to them?

Duncan Simpson: To those who use it? No. It is an advantage if they are not paying this tax obviously.

Ben Cottam: Can I just pick up on that latter point? It is a self-fulfilling prophecy. If we say the majority of businesses and people in South Wales are using airports outside Wales that is for a very good reason. Part of the reason we certainly support the devolution of APD is that it helps to reconsider what that airport should look like, what the connectivity



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should be and how we actually reduce the outflow of passengers from South Wales.

There is another part of the puzzle. We are talking about passengers from Cardiff; clearly it is our biggest urban centre. As we develop the Swansea city region, for instance, and even further west to the western reaches, if you can properly develop it Cardiff becomes the most likely proposition as a hub, either for internal air travel within the UK, Europe or in fact internationally if you can get that in place. There is a case that it is almost a slightly dysfunctional market, so we are trying to correct that rather than accepting that is a case against devolving APD.

Q114 **Ben Lake:** Something that has not been discussed yet this morning, and should perhaps be touched on, is the potential for APD to be a policy to reduce emissions. How would the panel respond to that justification for keeping APD?

Ashley Rogers: UK emissions from aviation are about 6% of total UK emissions. That has doubled since 1990, which is not a good thing. If you are looking at APD and turning it either into a more targeted tax or reducing it in a way that could support those airlines with the most fuel-efficient fleets that would be a good thing. We cannot go for a blanket, "Let's double the size of Cardiff Airport". If it is devolved the question would be how doubling the size of Cardiff Airport and the number of flights would affect the Welsh Government's obligations under the Well-being of Future Generations (Wales) Act because that is not straightforward.

In theory, if you double the flights you double the emissions. You can target the airlines with the most fuel-efficient fleets. You could do it on a plane-by-plane basis. You pay less for a flight with a more fuel-efficient plane than you do for one that is 15 years old or so. We have to incentivise the airlines to upgrade to more fuel-efficient planes.

Ben Cottam: I absolutely agree that we have to strike that balance. However, by necessity, encouraging people to travel outside of Wales what we are doing is putting a significant strain on what is relatively underdeveloped road and overland infrastructure and there is therefore a level of offset. However, I absolutely agree with Ashley, we cannot have a conversation that simply says, "We see significant increases in air travel" without other mitigating measures and ensuring we strike that balance.

Duncan Simpson: I probably see it slightly differently. Flights within the EEA are covered by the EU Emissions Trading Scheme. Obviously with Cardiff Airport, in particular, the overwhelming majority, bar a flight to Qatar and a few others, are within the UK and the EEA so the majority of those emissions are already covered by that. Also bear in mind, as Ashley alluded to, the efficiency of aircraft is improving substantially as the years go by.



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We certainly support a phased reduction of APD but a lot of the externalities from flying, noise and air pollution, are already covered within an existing scheme. To the best of my knowledge the Government have not indicated they plan to fully depart from the ETS, I might be wrong on that but as far as I know they plan to continue within that.

Q115 Anna McMorris: If the UK Government were only to devolve APD for long haul flights, as is the case in Northern Ireland, would you support it and how might it affect businesses in Wales?

Ben Cottam: Our support of the Silk Commission was based on the presumption that in the first instance you look at the devolution of long haul flights. As I mentioned earlier, there is a new narrative about how we create international trade opportunities. We believe in Wales there is a new narrative needed about what the Welsh brand looks like and how we create a new shared identity that we can capitalise to boost business opportunities. That then goes hand in hand with the opportunity of creating an international hub at Cardiff.

Certainly the Qatar link is a really good example of how the business community, working with the airport as a strategic partner, has gathered around to market Wales more effectively. It is early days so we cannot perceive at the moment the value of that link to the Welsh economy. Cardiff Airport is delivering about £260 million of value to the Welsh economy. Even if it were possible to attract a couple of other significant international destinations through the devolution of long haul APD then certainly that would start to outweigh the loss of tax take.

We would support it. However, we are also realistic that for most businesses the circle of influence and the circle of trade will always be relatively limited to the UK. If we are going to have that conversation about the international projection of the Welsh brand complementary to the international projection of the UK brand, we have to look at the infrastructure that allows us to do that. The devolution of long haul APD is certainly something we would support but we certainly still think there is a conversation about short haul as well.

Ashley Rogers: I agree with Ben, in terms of supporting devolution of long haul if the UK Government are not going to reduce APD UK-wide. However, I would say you should include short haul as well. If you are bringing companies in to base themselves in South Wales and APD is used as a sort of inward investment tool, when they are based here they are going to want to fly to customers in the rest of Europe so why not do all of it? It almost would cost you more to administer the differences than you would get from taking that tax in the first place. Therefore, I would not say all or nothing but our preference would certainly be short haul and long haul devolution.

Duncan Simpson: It would be the least-worst option in any of it. The Northern Ireland example we broadly support. The circumstances between Belfast and the Republic are quite distinct compared to Wales



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and England. However, I make the point it would precipitate a further fractured landscape of the application of APD. Our intention is to bring about a UK-wide reduction and the devolution of just long haul may well not encourage that UK-wide approach.

Q116 **Chair:** The million dollar question—we cannot avoid this, can we—is what impact, if any, do you think Brexit will have on the pros and cons of devolving APD?

Ashley Rogers: Without knowing entirely what Brexit is I would say anything that improves our competitiveness or connectivity will be welcome in a post-EU world.

Q117 **Chair:** You could see a few advantages if we are not quite so tied by state aid rules and things?

Ashley Rogers: Anything that makes us more flexible and more competitive, yes.

Ben Cottam: I am not going to riff on the various possible outcomes and scenarios of Brexit, particularly today. What I will say, and we have said this clearly, is that Brexit requires us to think differently about how we project ourselves. We see then a very different realisation as to what these strategic economic assets mean to Wales. There is opportunity to talk more and to talk more loudly about the opportunities of international and European trade with businesses. We need to put the wherewithal in place for them to be able to do that easily.

Clearly there is a conversation to be had about what flexibility of state aid rules there is. However, as one of your previous witnesses suggested, there is a lot within the current mechanisms that would allow for devolution of APD anyway without infringing on any conversations around the existing imagining of state aid rules. I would not want to get too hung up on the opportunity there, I see it more about the opportunity of speaking more about Wales and the economy and the businesses within it.

Duncan Simpson: We would have liked to have seen a 50% reduction in the Budget in November. The Budget has been and gone and that has not happened. In the intervening period, however, it would be quite appropriate for the Treasury to do some dynamic modelling on the effects of a 50% reduction to see the benefits accruing to investment, tourism, employment and export opportunities. If the priority is to instigate that modelling and really assess the benefits accruing to the whole of the UK post-Brexit then we would welcome that.

Chair: We have managed to do it by 11.15 am. I thank you all very much indeed for that most interesting evidence.