

Welsh Affairs Committee

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

Thursday 7 March 2019

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[Watch the meeting](#)

Members present: David T. C. Davies (Chair); Tonia Antoniazzi; Chris Davies; Geraint Davies; Ben Lake.

Questions 119-179

Witnesses

[I](#): Debra Barber, CEO Cardiff Airport, Dave Lees, CEO Bristol Airport, and Graeme Elliott, Corporate Affairs Director Manchester Airport.

[II](#): Rebecca Evans AM, Minister for Finance and Trefnydd, Welsh Government, Simon Jones, Director for Economic Infrastructure, Department for the Economy and Transport, Welsh Government, and Dr Andy Fraser, Acting Deputy Director, Tax Strategy, Policy and Engagement.

Examination of witnesses

Witnesses: Debra Barber, Dave Lees and Graeme Elliott.

Chair: I welcome Mr Lees, Ms Barber and Mr Elliott to the Welsh Affairs Committee. I am David Davies, the Chair of the Committee. There are translation facilities here if you want to give evidence in Welsh. I don't think that we will need them in the first session, but obviously anyone is welcome to make use of them. Thank you all for coming along. Ms Tonia Antoniazzi will begin.

Q119 **Tonia Antoniazzi:** Thank you, Chair. Morning, everyone. Can you summarise the impact that air passenger duty currently has on your airports? We will start with Debra.

Debra Barber: Obviously, as Cardiff is the single airport of its type in Wales, most of or virtually all the APD generated in Wales comes from Cardiff airport. Currently, a total of £14.5 million a year is raised in taxes from the flights at the airport. Domestic flights equate to £1.7 million, short-haul international to £7.8 million and long-haul to £4.8 million. It is a total of £14.5 million.

Dave Lees: At Bristol airport, the overall APD amount is in the order of £60 million per annum, and it's increasing, as we have grown this year. In 2018, we had just over 8.6 million passengers, and we are growing to just over 9 million passengers in 2019.

Graeme Elliott: Manchester has about 28 million passengers a year. Across MAG, the total tax take is about £500 million. But I would like to make a broader point about what APD does to the development of the airport. This is a common refrain; you have heard it a lot. APD is a drag on growth, and certainly as a tax on international and domestic connectivity, it makes UK airports relatively uncompetitive compared with those of our European neighbours.

From a Manchester perspective, what that means in practice is that over the last 10 to 15 years, the rate of development, particularly in terms of long-haul growth, has been about half the rate that we have seen at what we would consider to be our European competitors. We are the 20th largest airport in Europe. Around that section of the list would be Brussels, Copenhagen and Dublin. That development of long haul, at half the rate of some of those airports, coincides with an almost 300% rise in APD, among other factors. So you can see that, compared with Europe, when we think holistically about this and what it means for UK connectivity, it is clearly having an impact. If we were to grow at the same rate, just going by the amount of money spent by the visitors who come into this country, we would be about £10 billion a year better off.

Q120 **Tonia Antoniazzi:** So that is how APD affects your expansion plans.

Graeme Elliott: Absolutely. Clearly, the growth of our passenger numbers underpins the £1.5 billion investment in our airport that we are planning over the next 10 years. It is clearly a big factor.

Q121 **Tonia Antoniazzi:** In Cardiff and Bristol, how does the APD affect your expansions plans?

Debra Barber: I think it is exactly the same. The rates of APD in the UK are the highest in the world; we are certainly the highest across Europe. Germany is the next highest, at 50% of APD. Clearly, when we compete for airlines, we are not only competing against UK airports but European airports. We have had examples of airlines that have made it quite clear that, if APD was lower, they would expand into the UK and into our airport.

We have had Willie Walsh, chair and CEO of the International Airlines Group, talking about LEVEL, the new low-cost, long-haul airline. He specifically said that, were APD to be abolished or lowered, Cardiff would certainly be one of the target airports that LEVEL would look to expand into.

Dave Lees: The same as my colleagues. Our trade organisation, the Airport Operators Association, was unanimous in wanting to see the complete abolition of APD, to make sure that there is a level playing field across the UK. That would make us more competitive on a worldwide basis, as well as on a European basis.

Q122 **Tonia Antoniazzi:** Debra, can you explain how your risk-sharing arrangement with Flybe works?

Debra Barber: That is a commercial agreement that we have with Flybe, so no. We are under a confidentiality clause. We have a joint venture with Flybe, so we operate it as a commercial arrangement that is confidential.

Q123 **Tonia Antoniazzi:** Does APD play a role in reducing the environmental damage caused by aviation emissions?

Dave Lees: APD was introduced several years ago, and I think, at the time, it was labelled as aspiring to reduce the environmental impact. However, it is a relatively coarse measure. For instance, somebody flying to Australia pays the same tax as somebody flying to India. It is not on a graduated scale, per se, so it is a relatively blunt instrument. From my perspective, the UK Government have already made it clear that it is a tax, and it is collated by UK Government officials.

Q124 **Tonia Antoniazzi:** Do you all agree?

Graeme Elliott: What you see, generally speaking—this is not a nice term—is leakage. If some of that demand is not felt in the UK and is not received directly, with passengers arriving at UK airports, it probably means that that demand is going elsewhere.

The challenge for an international sector such as aviation is how to control and offset the rate of emissions. That has been happening right across the industry, through the development of technology and the processes that we can implement through changes to airspace design and the practices of our air traffic control. All those things are beginning to have an impact.



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I think you now see a de-coupling of emissions and the environmental impact of aviation from the growth of aviation. You have seen, certainly over the last 10 to 15 years, that aviation has continued to grow, but emissions are not going up at the same rate. If anything, in terms of noise and those kind of impacts, it is shrinking quite dramatically. We all have a role to play in making sure that that trend continues, but APD, as Dave says, is a very crude tool, and it is not really designed for that purpose.

Debra Barber: As airport businesses, we take our environmental responsibility extremely seriously. Clearly, airlines operate their aircraft in the most fuel-efficient way that they can. Engine designers are working to make engines as fuel-efficient as they can be. As airports, we work with our air traffic providers to make sure that we have the most fuel-efficient routes and climb and descent profiles.

Also, as airport businesses, we are all looking to introduce electric vehicles across the airport. We are looking at LED lighting wherever we can. We are looking at alternative power sources to reduce our environmental footprint. This is something we take extremely seriously and we do not necessarily feel there is that connection between APD and its environmental impact.

Q125 **Geraint Davies:** I am not quite with this. I know Mr Elliott claimed earlier that we had halved the growth of long-haul flights because we had a 300% increase in APD. Clearly, he put the case that APD was reducing long-haul flights. Obviously, if you reduce APD you must increase long-haul flights, and long-haul flights are the ones that have the impact on the environment. My understanding is that the carbon footprint of aviation will grow from 6% to 12%—I think it is by 2030 now—within our shrinking carbon target. Surely APD is, by your own logic, a dramatic contributor to reducing the environmental impact and we should be lobbying Europe to increase APD?

Graeme Elliott: The point I was making was rather that some of the growth you have seen in the European markets is leakage of demand from the UK. The UK's contribution to those carbon emissions is as part of that international global sector.

Q126 **Geraint Davies:** Should we tell them to do APD, rather than cutting ours? That is what I am getting at.

Graeme Elliott: Clearly, as an industry that is not what we are suggesting. I don't think it is an effective tool to suppress demand. What we need to focus on is incentivising R and D, as the Government has begun to do, in the development of technology and on creating the right incentives for the industry to invest, as it has done over many years, in the development of airframe technology, the development of biofuels and those kinds of technologies and improving the airspace right across the UK and Europe. Those are the kinds of measures that will substantially improve the efficiency and effectiveness of the industry. We agree with the Government's position, which is that there is an international arrangement that we can reach on carbon emissions trading, called CORSIA. For a



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sector such as aviation, which is difficult to decarbonise at the same rate as some other sectors, that allows us the time to develop and implement the technology over time.

Q127 **Chair:** What you are saying is basically everyone would have to do it for there to be an impact. Can I put something to you, Mr Lees? Ryanair has told us that Bristol Airport is operating almost at full capacity. Is that a statement you would accept?

Dave Lees: Bristol Airport, as I said earlier, in 2018 handled just over 8.6 million passengers. It currently has a capacity cap imposed by the local authority, of 10 million passengers, so there is still a number of years' worth of growth to achieve that cap, but at the same time we have stated our intent to grow the airport in a progressive manner over a period of time. We currently have a planning application lodged with our local planning authority to take us to 12 million passengers, so we do not see that being a cap per se in terms of being able to progressively serve the needs of the region.

Q128 **Chair:** Are there restrictions on long-haul flights, or difficulties or challenges in operating out of Bristol? We have been given grounds to think that perhaps the airport runway is not long enough to accommodate all the long-haul flights if they wish to use it.

Dave Lees: No. This gives me a great opportunity to right some of the aspects that came in the Northpoint and York Aviation report, because they both made reference to long-haul flights. Bristol Airport has a runway that is just over 2,000 metres, so it is several hundred metres shorter, but not substantially shorter, than those at Cardiff and other airports across the UK. Over the course of the past five to 10 years we have seen some very significant improvements in aircraft technology. If I had been sitting here 10 years ago I might have had a different view, but aircraft have become lighter using composites, and aircraft design, aerodynamics and engine performance have improved. Today we fly with TUI, for instance, 5,000 miles from Bristol Airport to Mexico. We have a range of long-haul destinations that have developed over the course of the past five years.

Q129 **Chair:** If air passenger duty were devolved and reduced in Wales, would that be a threat to Bristol airport's plans to expand?

Dave Lees: It would certainly have a material impact in terms of the number of passengers carried, because of the overlap of the catchment area. The York Aviation report highlighted that we could have a substantial decrease in passenger numbers of 1 million passengers per annum. Even the Northpoint report highlighted that that figure was 600,000, which is a substantial number of passengers. In terms of our development requirements—

Q130 **Chair:** What would your estimate be between those two reports? Would you say the figure is broadly somewhere between those two figures?

Dave Lees: The reports were both undertaken between 2015 and 2017. The airport has continued to grow. I believe that it is in the order of 1 million passengers, if not higher now. Last year, 1.8 million passengers

came from south Wales to fly through Bristol airport, so that gives some credence to that.

Q131 **Chair:** So potentially, if APD were devolved, 1 million passengers would be lost to Bristol and would use Cardiff airport.

Dave Lees: That is correct.

Q132 **Chair:** Ms Barber, do you accept the points—if I may ask you; I am sorry you are sitting next to each other, but it makes it lively and fun for us—

Debra Barber: No, I am perfectly happy to do that.

Chair: On the issue of runway lengths and long-haul flights.

Debra Barber: You will not be surprised to hear that I do not accept what Dave has just said. You will know that we have a significant long-haul service operating from Cardiff now—Qatar Airways—which operates a Boeing 787 to Qatar. We had a protracted negotiation period with Qatar Airways to attract the flight to Cardiff. One of the first questions that we were asked by the group chief executive officer when we went to talk to him about that flight coming to Cardiff was, “Well, why Cardiff and not Bristol?”

It turned out that two key operational issues drove Qatar Airways to decide on Cardiff. One was the runway. As I say, the Boeing 787 scheduled service operates with 12 tonnes of freight each day. We probably spent three sessions out in Qatar with the operations team talking through runway performance and about how the runway is in wet conditions. The conclusion, categorically, was that Cardiff airport was the optimal airport for that service. When we are talking about scheduled long-haul services with full freight capacity, there is absolutely an issue with the runway.

The other issue that Qatar was fixated on was the shadow effect of Heathrow and Gatwick. That features significantly more in the Bristol catchment area to the east of Bristol. The feeling was that, with rail connectivity and distance, again, it was economically optimal for Qatar to operate from Cardiff.

Dave Lees: Could I come back on that point without going into too many details? Different airlines have what are called different mission rules, so you may find that, for the same aircraft type, different airlines have different views about certain things. Likewise, they may have different seating densities and different assumptions. That is an area of complexity that goes into any discussion with an airline, and it is played out beautifully in terms of the same aircraft type in terms of the 787—

Debra Barber: But without freight.

Dave Lees: But it flies 5,000 miles, whereas Qatar, as we know, is only 3,500 miles.

Debra Barber: But it is the freight that makes the long-haul wide-body services viable. Without a full freight operation, that service is not sustainable, which I think we found with long-haul services from Bristol in the past. Payload restrictions were one of the key issues that made those services not sustainable in terms of north American routes.

Q133 **Chair:** Is that a fair comment, Mr Lees?

Dave Lees: I think freight is an issue when you take account of the mission rules and the overall weight of an aircraft. Technology, as I say, is improving—I think we would all accept that. As Graeme highlighted—

Chair: “Is improving” is not quite the same as “has improved”, is it? You might be waiting for developments that are coming down the line, but which are not with us yet, to make Bristol—

Dave Lees: No, I would dispute that point. When you look at what Airbus have coming in the next few years in terms of their A321 long range aircraft, it does provide that capability. We have seen that already in terms of single-aisle aircraft operating across the north Atlantic from a number of regional airports over the last few years, so that technology is already here. It is not a 10-year aspiration.

Debra Barber: I want to build on that point. One of the issues that we talked about with the airlines—this comes into the catchment area point as well—is that we have got some issues massively around the description of catchment areas within the York report in terms of domestic and short haul. The industry norm is a 45-minute or 60-minute catchment, whereas the Bristol report talks about a 90-minute catchment area. But we absolutely accept that for long haul we have an overlapping 90-minute catchment area. When we have talked to the airlines, for most services for the long-haul scheduled services, they consider generally that there is only a market for that service to operate from either Bristol or Cardiff. So this is where we talk about the economic benefits of APD, and not just economic benefits for south Wales¹. It also has significant economic benefit for the south-west. This is one of our issues with the York report, which only talks about the negative economic impact.

We are already seeing, from the Qatar service, that we have got Visit Bath now in a partnership with us, which they see as a visionary partnership that benefits tourism. We have got producers in south Wales exporting crabs through Cardiff airport, so the freight issue is really significant for economic benefit.

Q134 **Chair:** I’m sorry to cut you a bit short, but I am aware of the time. Mr Lees mentioned a figure of potentially 1 million passengers being lost to Bristol and going to Cardiff. Would you accept that figure as roughly correct?

Debra Barber: Again, no. One of our issues with the York report is that they based all their economic assessment—they talk about £800 million of

¹ Witness correction: south west



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GVA being lost and 1,500 jobs—on high case scenarios. So, no, I do not accept it.

Q135 **Chair:** Okay, so if, hypothetically, APD were devolved and reduced, what would be the impact on passenger numbers for Cardiff?

Debra Barber: For us, the passenger numbers that we would gain, depending on the case that is used, we think would initially be between 100,000 and 400,000, with a maximum of about 600,000 by 2025.

Q136 **Chair:** So there would be an increase in passenger numbers.

Debra Barber: So a material economic benefit for south Wales.

Q137 **Chair:** Mr Elliott, to be cheeky, you have listened to these slightly conflicting views. As somebody who is a bit further away up in Manchester, what did you make of that?

Graeme Elliott: I certainly don't want to get involved in a bust-up between Debra and Dave. If the question is about the impact on Manchester, which is somewhat removed, what I have heard here is an interesting debate about the development of capacity and routes on one side of the border or another. Manchester airport is 37 miles away from Wrexham. I would argue that Manchester is just as much a part of the fabric of the Welsh economy and as much a contributor to the success of north Wales in particular as any business on the other side of the border in Wales. On that basis, in a sense, the question of devolution of APD is almost to miss the point about the contribution that connectivity in the round can play. If it is close by, as Bristol evidently is, but certainly Manchester is, then there is demonstrable economic benefit far beyond the specific location of that airport. We are just shy of 1 million passengers travelling from Wales through Manchester in 2017. That is a significant number.

Q138 **Chair:** I have time for only one question. If APD were devolved and if it were reduced in Cardiff, given what Ms Barber has just said about journey times being a maximum of 90 minutes, it will have no impact whatever on Manchester airport, because people from Wrexham will not travel down to Cardiff as opposed to Manchester just because of that.

Graeme Elliott: I think you're right that in practice there will be little impact on services that operate today. I don't think it will draw passengers away. I think the potential impact is in the development of new routes. The discussion you just heard about Qatar and whether it is Bristol or Cardiff is not one that we necessarily always recognise. We recognise the debate that airlines are having about whether one aircraft is going from Manchester or Copenhagen. That is a discussion that we need for UK connectivity.

Q139 **Chair:** In summary, in a successful situation, APD is devolved and it is cut in Cardiff. What that could mean is more routes in Cardiff, as opposed to more routes in Bristol or Manchester. I think that is what you are saying.



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Graeme Elliott: I think there could be some gain in connectivity to Cardiff, but I stress that the important thing is connectivity for Wales, not necessarily in Wales.

Chair: Thank you.

Q140 **Ben Lake:** Forgive me, Mr Elliott, my questions will primarily be directed to Debra and Dave. I want to return to the York Aviation and Northpoint reports, which we discussed in some detail. To come back to the overlap of the catchment areas, I think it was mentioned that there was a difference between the isochrone drive times that were adopted in one or the other. Could you elaborate on what difference it made, and whether there was a particular reason why 90 minutes was adopted rather than what we have been led to understand is the industry standard of between 45 and 60 minutes?

Debra Barber: That is the key point. Whenever we talk to airlines about our catchment areas and our market, for domestic flights we would normally be looking at a 45-minute catchment area. If it is short haul, it is 60 minutes, and if it is long haul, it is 90. Effectively, most of the passengers we are talking about are short haul or domestic. All our leakage from Wales to do with long-haul travel is primarily to Heathrow. We fully accept that for long haul there is an overlapping catchment area using 90 minutes, but we totally refute the idea that we have a combined catchment area for short haul and domestic.

If you apply the 45 and the 60-minute isochrones, the overlap is primarily around Gwent. Both cities have severe traffic issues during peak times. If you add peak times to it, the overlap is just about the south of the county of Gwent. We have 1.2 million passengers from the south Wales catchment area a year going to Bristol to fly. That is not a result of its being Bristol's catchment area. All our surveys and academic research show that people prefer to travel from their local airport.

We have the situation where 1.2 million people are travelling to Bristol not because they are from Bristol's catchment area but because of historical market failure. Back in 2005-06, when Cardiff airport was under private ownership, passenger numbers fell off the cliff and routes declined, so passengers from Wales were forced to travel to Bristol. This is historical market failure, not an overlapping catchment area. That is our fundamental issue with the way it is described.

The York report also is not tested against European competition rules. They define competing catchment areas as within either less than 100 km or a 60-minute travel time. Our two airports are 99.4 km apart, so we are right on the edge in terms of distance. In terms of time, I am sure you have all done the journey; if you travel between the airports on a quiet day you will take 1 hour 25 minutes; if you travel at peak time, it could be up to 2 hours.

Q141 **Ben Lake:** Mr Lees, how would you describe that?



Dave Lees: It perhaps does not come as a great surprise that I see catchment areas as slightly different. I am more reliant, perhaps not surprisingly, on the York Aviation report in terms of an hour and a half being the norm. In preparation for coming here, I wanted to see how other airports market themselves, and I used Cardiff airport as an example. The catchment areas that Cardiff airport uses are 60, 90 and 120 minutes. I have the evidence here that aligns more with the industry norm of an hour and a half. The Northpoint highlighted a minimum catchment area in the Newport area, but that does not align with what we see in practice in terms of 1.8 million passengers using Bristol airport.

We have regular dialogue with companies in south Wales and we work incredibly closely, including with the new international convention centre, on offering that connectivity, which we are very proud of. Interestingly, I noticed only earlier this week that one of the first things you see when you come into the airport is a great big billboard advertising facilities in Cardiff. That really highlights the opportunity but also the net worth that Bristol airport provides, in a complementary way, to Cardiff airport.

Q142 **Ben Lake:** Briefly, if I may, in terms of the reports and the differences in drive time, isn't there a danger that one has perhaps exaggerated a particular outcome or conclusion over another? Mr Elliott, perhaps I can drag you into this as a mediator.

Graeme Elliott: Please don't! *[Laughter.]*

Q143 **Ben Lake:** The Committee—I am sure you can sympathise—has received conflicting and contradictory reports, so it is very difficult for us to try to fall on one side or the other. I completely empathise with the fact that you are competitors. You are businesses, and you will understandably, and quite rightly, want to protect your own interests.

But in terms of the impact of APD, Kate Sherry from Ryanair and Susie Reckitt from Flybe appeared before us to give evidence. Kate Sherry said, with reference to Bristol airport, "Most airlines would want to maintain their competitive presence." That was in the context of devolution of APD to Wales. Susie Reckitt mentioned that, such is the difference in size between the two airports, "In my view, it would take quite a big distortion to be able to counter that massive scale difference." Is there a danger that we are focusing more on the potential very long-term impact at the expense of the short-term gains? I am willing to be corrected.

Dave Lees: Price is a very important factor for passengers in terms of determining their travel habits. If we look at the removal of the £13 APD on short haul, I think the lead-in prices for Flybe, for instance, are in the region of the mid-£20s, so we are talking—I appreciate that is the lead-in price—a 50% reduction in prices at the end of the day. That is very substantial.

You mentioned Ryanair. In 2015, the chief commercial officer highlighted the distorting impact that the devolution of APD would have on Bristol airport. He highlighted that that impact would be very real, very tangible and very quick. I will not read the whole comment—I can submit it to the

Committee—but it ends, “Bristol will find itself a victim.” Once again, in preparation for the Committee, I have been speaking to our airlines. I spoke to one of our key airlines only yesterday, and they said they would move capacity from Bristol to Cardiff very quickly.

This is not long term; it would have an immediate impact. That would have a material impact on the connectivity that Bristol airport is proud to give to south Wales. We have already spoken about the porosity of the border, which, with the reduction in the tolls, has increased. We are very proud to be able to serve south Wales.

Debra Barber: Again, I have a slightly different end of the telescope from Dave. Dave talks about 1.8 million passengers going from south Wales. Our figure is nearer 1.2 million, which is about 14% of Bristol’s traffic.

One of the issues they look at in terms of APD is a concern that we would suddenly start grabbing a significant number of passengers from the south-west. At the moment, 0.3% of our domestic passengers come from Bristol, and 0.4% of international passengers come from the south-west. Even if we were to increase that number by 25%, it would not have a material impact. But as I say, the main issue is that all our planning is based on giving the people of Wales the choice to fly from their local airport. It is not about bringing people back across the Severn bridge from the south-west. Again, this is where the numbers have been significantly exaggerated. Actually, the impact on Bristol would be minimal.

I just want to pick up the point Dave makes about the £13, and that encouraging passengers to swap airports. It is not guaranteed that airlines will pass on that £13 to passengers. Airlines—especially the likes of Ryanair—operate to very tight margins. The chances are that they would absorb that £13 into making the routes more sustainable. That is good for passengers, because it means that routes will potentially become more viable. We had issues with, for example, the London City route being unsustainable. APD was one of the key reasons for that. The price will not necessarily be the thing to drive passengers to change airports. This is about us providing services to people in Wales.

Chair: I am going to have to be a bit strict here, because we have the Minister coming in 10 minutes and two Members who have asked very little. Mr Elliott has avoided being called in as a mediator a bit, but I think we should hear a bit more from him, as a slightly more impartial voice. The next person on my list is Geraint. Is that all right? I will come to you afterwards. We might not get through all the questions, so have a look through them, Mr Davies and Mr Davies, and ask whatever you want in the nine minutes or so that we have left.

Chris Davies: I plan to, Chairman.

Q144 **Geraint Davies:** I want to ask about environmental impacts again. The conversation has been about the extent to which people in Wales who are currently going to Bristol to fly will come back to Wales. It seems to me that regarding the environmental impact, in particular at a time when we



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are taking the tolls off of the Severn bridge, we want people travelling by car as little as possible to the nearest airport. Would you both agree that if the impact of the APD being reduced in Cardiff is that more people who live closer to Cardiff than Bristol will fly from Cardiff, it has to be good for the environment?

Debra Barber: Absolutely, and I think you will find that most people will travel to Bristol by car, so that would mean that car journeys will be significantly reduced. Also, a significant amount of our leakage goes to London for long-haul flying, so the opportunities to stop the long journeys up the M4 are significant, if we can attract more long-haul flights to Cardiff.

Dave Lees: Certainly it is an aspiration of ours to increase public transport. We have already done a fair amount in terms of services from Cardiff, and encouraging people to use trains as well as travelling by car, which, as Debra has highlighted, we want to minimise.

Q145 **Geraint Davies:** It seems to me that the negative impact on the environment would not occur if people from Wales travel from Cardiff instead of Bristol, but would occur if—one further step—people from Bristol and the south-west started going to Cardiff, and at that point there will be a negative impact on the environment in terms of domestic movements of cars.

Debra Barber: We don't see that happening. As you said, fewer than 100,000 of our passengers currently come from the south-west. We don't think that a £13 reduction in APD will pull significantly more people to drive past Bristol and come to Cardiff.

Q146 **Geraint Davies:** Have you done an environmental impact assessment? It seems to me—following the point that you made—that if a significant number of people who currently travel all the way to Heathrow from south Wales for long-haul flights instead fly from Cardiff, there would be a massive impact on the environment in reduced congestion and problems on overcrowded trains.

Debra Barber: That is one of the arguments that we have. As I said, we see the removal of APD as economically and environmentally beneficial, in terms of choice for people.

Dave Lees: We'd also need to look at the exact location people are travelling from in south Wales, given that, as Debra has highlighted, Cardiff airport is on the west side of the city. Where do the vast majority of people come from? You may find that it is a neutral position, in terms of where they are travelling to in each direction.

Q147 **Geraint Davies:** Finally, in terms of the APD discussion, how does Brexit affect the case for devolving APD?

Chair: Mr Elliott, do you want to start, since you have been a bit quiet?

Debra Barber: Having come all the way from Manchester.



Graeme Elliott: I don't think that Brexit has materially changed the argument for devolution of APD. Brexit may have sharpened people's focus on the importance of being an island nation and needing to connect to the world. Clearly, if we are going to continue to be an outward looking, globally connected economy, we need a very successful, competitive and well connected aviation and airport market. That is why we want to see the Government use APD as a tax lever to incentivise more of that activity.

I do not think that devolution to Wales, or to any sub-regional body, will have the effect that you might like to see. We want to see the UK's relative level of competitiveness with our European competitors levelled off, so that we are competing effectively with our European competitors to incentivise and increase connectivity for the benefit of the whole of the UK.

Q148 **Geraint Davies:** So you would like to see APD just collapsing? There would be a huge increase in air traffic, for instance, to London and Britain generally.

Graeme Elliott: I don't agree that a reduction in APD across the board would see an increase in traffic to London alone. What it will do is allow an awful lot of airports like Manchester and, indeed, Bristol and Cardiff, to take advantage of their relatively improved competitive position against their European neighbours.

One of the things we have been talking about in recent times is if the Treasury is minded to innovate in some way on APD and it wants to see more long-haul connectivity, which it clearly says it does—one of the bases on which it approved a third runway at Heathrow is the benefits of long-haul connectivity for the UK—then actually you could see an incentive through the reduction of long-haul APD for a period, for a specified purpose, actually having a demonstrable impact in, particularly, the development of long-haul connectivity through airports like Manchester, at a time in the next 10 years when Heathrow and Gatwick will continue to be full.

Debra Barber: Can I just make one point? I would take us back to the discussion we had earlier about freight. What the reduction in APD does is make long-haul connectivity more viable, particularly for the regional airports. One of the benefits we are seeing from the Qatar Airways flight is for the Welsh SME rural economy. They are now able to export freight directly from Cardiff airport. I think if we can get an increase in long-haul connectivity as a result of the reduction in APD, it not only makes passenger travel more viable but, in a post-Brexit world where we are looking to third country trade links outside Europe, it is critical that we have the strongest long-haul network we can.

Q149 **Chris Davies:** Two quick questions, if I may, the first of which is to Mr Elliott. The Welsh Government have spent £52 million or £54 million on buying Cardiff airport. They have then invested £40 million on top of that. The former Welsh First Minister said that this £6 million—£8 million, £10 million—of APD would be passed straight on to Cardiff airport. Do you see that as a completely unfair playing field, as this would be yet another



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subsidy for Cardiff airport as a nationalised industry?

Dave Lees: From a Bristol airport perspective, we want a level playing field across the airport system in the UK—that is in the consumer's interest, at the end of the day. Any kind of market distortion we would see as being unfair, so while we see there are, absolutely, currently complementary opportunities between Bristol and Cardiff, in terms of serving the region, what we do not want is any further market distortion in whatever form that might take—most notably, devolution of APD.

Graeme Elliott: I do not really have much to add to Dave's point, to be honest. I would encourage the Welsh Government to be looking to exert pressure on the UK Government to have a much more holistic view on this. If the view is that there is a damaging effect of APD on the development of connectivity to Wales in Wales, then that argument is exactly the same and is true of the development of connectivity to Manchester.

The fact is that with 200-odd destinations, 70 airlines, 1 million passengers from north Wales through Manchester—about half of all international tourists arriving in Wales arrive through Manchester—the Welsh Government, in the interest of the Welsh economy, should clearly want to see the development of Manchester as well as and alongside the development of Cardiff, as important as that issue is. The devolution of APD, it seems to me, is not necessarily going to have the whole-economy benefit that they might like to see.

Q150 **Chris Davies:** You have both given very good reasons, gentlemen, why APD should not be passed to Wales and, Ms Barber, you have fought your case very well indeed today; but if your business is going to have the subsidy of, say, £10 million, what would you say to my hoteliers in mid-Wales, and those in north Wales, who are saying that if the Government reduced VAT they would be able to spend more money on local producers and ensure that more tourists could come, and have a level playing field spending money in Wales? Why shouldn't they have the benefit, and why should you have the benefit?

Debra Barber: First of all, I want to talk about Dave's point about a level playing field. I would love there to be a level playing field in the way that the airport industry works. At the moment, the regulatory framework that we operate in massively distorts the market towards medium-sized airports. If you look at regulatory-imposed operating costs, small airports carry a burden of around £20 to £25 per passenger, but for medium-sized airports it can come down to as low as £5. Our air traffic costs are about 25% of our operational expenditure, but for the bigger airports it is probably less than 1%. We do not have a level playing field; we are running uphill at the moment.

Q151 **Chris Davies:** You're not really answering my question. Most people would look at this and say that the general public are well served wherever they go, because they are not traveling very far, whichever airport they are going to. Why should you get an additional subsidy and



other airports should not?

Debra Barber: I don't see it as an additional subsidy; I see it as a means of producing more economic development in Wales. We have already talked about the economic benefit to Cardiff that the devolution of APD would have, in terms of higher passenger numbers then leading on to jobs and stuff like that. I understand that the Welsh Government will have powers on income tax from April 2019. Those new jobs and that economic benefit that APD devolution would generate in south Wales could be felt across the whole of Wales. I absolutely do not see it as a subsidy but as an economic lever to help the whole of Wales.

Chair: Did Mr Elliott want to come in?

Graeme Elliott: I just want to make one point. We are making a good number of assumptions about the speed at which this will incentivise the development of Cardiff. It is worth remembering that the reduction to zero of APD for Wales would put Cardiff on the same footing, in terms of tax levels, as its competitors in Europe. If an airline—particularly an international airline—has one new aircraft that it wants to deploy into a European destination, it will not look entirely at whether Bristol, Cardiff and Manchester have differentiated levels of APD but at the relative merits of catchment, penetration and surface connectivity at each of those airports and their European neighbours.

It is worth thinking in terms of what this does for equalising the relative merits of Cardiff versus some of those big airports that I talked about, including Copenhagen and Brussels. That is the competitive environment we are in. We have been able to successfully develop Manchester, through adding new routes to Mumbai and Beijing. When those services come in, they usually come in with high frequency and a very high level of benefits, in terms of trade, cultural exchange, university applications and those kind of things. Those benefits demonstrably benefit Wales as well as the wider region and the north of England.

Chair: I see that the Minister is waiting behind you. Mr Lees, do you want to quickly answer?

Dave Lees: I will be very brief. I just want to make the point that Bristol airport is already part of the fabric of south Wales, in terms of employment. You have seen the Northpoint and York Aviation reports, which give different kinds of values for with those. In 2018, we had nearly 300 people employed on construction projects. Even members of my team live in south Wales, so moving capacity from one airport to another will have a material economic impact for residents and companies in south Wales as well. It has unintended consequences.

Q152 **Chair:** Can I just check one last thing, Mr Lees? I listened carefully to what you said on the impact that changing APD could have on you. Do you agree that there are factors, such as flight restrictions and public transport connections, that could have an equal impact on Bristol if they were changed?

Dave Lees: When we speak to passengers, the largest and most important factor that determines where they fly from is price. Price is king, and here we are talking about something that would distort and lower the price in a very significant manner.

Chair: Thank you very much indeed for coming in.

Examination of witnesses

Witnesses: Rebecca Evans AM, Simon Jones and Dr Andy Fraser.

Q153 **Chair:** I welcome the Minister, Ms Rebecca Evans, Dr Fraser and Mr Jones to the Select Committee. Thank you for coming along and sorry we are running a bit late. We got a bit carried away with some of the detail earlier.

Minister, can I start by asking you about if APD were devolved? We believe there was a previous commitment to ensure that it would be cut within Wales to support Cardiff airport. Is that commitment still in place? The latest letter we have seen from the First Minister says that that would mean giving serious consideration, at least, to reducing APD, which is not quite the same as an absolute commitment to reducing it. If you want to give an opening statement first, please feel free.

Rebecca Evans: I am happy to go straight into questions, but I will take the opportunity to introduce my officials. To my left, I am joined by Simon Jones, who is the director of economic infrastructure. He is here representing Ken Skates, the Minister who cannot be with us this morning. To my right is Andy Fraser, who is acting deputy director for tax strategy and policy at the Welsh Treasury.

In terms of some quick opening remarks, you will know that we as the Welsh Government have been calling on the UK Government for some time to devolve air passenger duty to Wales. It is the only tax that remains to be devolved in terms of the two independent reports on Welsh devolution—the 2010 Holtham Commission followed by the 2012 Silk Commission.

The area remains a priority for the Welsh Government, but it is not something that we alone are concerned about. You will know from the evidence that you have had as a Committee that there is unprecedented support and singleness of mind on the issue across the Welsh Government and Wales more widely. I believe that you have had evidence from the Chair of the Finance Committee. Complete cross-party support is enjoyed by the agenda. Beyond Government, you will be aware of the keenness of the business community, tourism and aviation to have APD devolved to Wales as well.

In terms of how we would use those powers, we are keen to use the established process that we have with the UK Government for the devolution of further taxes. In the first instance, we seek the devolution of the power. Separately—completely separately—to that, we develop the policy proposals as to how we would use the power, which should not be a

material consideration for the UK Government in whether it should be devolved.

The UK Government have already accepted the principle that we should have more control over taxes in areas where there is a significant devolved interest. We have seen that in the land transaction tax, the landfill disposal tax and the recent devolution of partial income tax. We would certainly be considering its impact in the round and looking to see whether a reduction in APD, at the least, would be beneficial in terms of the economy for Wales.

Q154 **Chair:** What is your initial thinking on that as the Minister likely to be most involved with it?

Rebecca Evans: The first step has to be to have that power devolved to us, then we would put it out to wide consultation as to how we would use that power. We would want to talk to the aviation industry, tourism, business—

Chair: But they are all in favour of reducing it.

Rebecca Evans: They are, but we would also want to do the necessary environmental impact assessments and so on. The consultation would need to be wide-ranging in terms of how and what we used that power for.

Q155 **Chair:** Are there any arguments for raising APD in Wales?

Rebecca Evans: None that I have heard, no.

Chair: Maybe I can fiddle around with the order here, because Mr Davies did not quite get his fair share last time, and I think he may want to ask about the environmental impact.

Simon Jones: Before he does, can I declare a conflict of interest here? As well as being the director for economic infrastructure, which includes transport in the Government, I am also the chair of a holding company of Cardiff airport.

Chair: That is noted. Thank you very much for putting that on record.

Q156 **Geraint Davies:** Just to get a response on this, in the previous panel, it was suggested by representatives of the airline industry—particularly from Manchester—that strategically it would be helpful if APD were reduced generally outside London, because London is near capacity, and not in London. I appreciate there is a case for Wales reducing APD, but would you accept in the round, if everybody reduced APD, there would not be a competitive advantage in terms of where passengers were? There would just be a net impact of more flights overall, because of lower costs, and higher environmental impacts.

Secondly, if all the tax take were locally contained, that would mean that London would suddenly have a tremendous amount of income from the APD it would continue to charge on the great mass of airlines flying into London. We would end up with a situation where London would have lots



of money, and Britain would have lots of pollution. How would you respond to that?

Rebecca Evans: There are two parts to this. The first is that I think the UK Government have already accepted the principle of there being some degree of competition in terms of tax across the nations. Obviously, we now have our devolved rates of Welsh income tax, which could potentially have some cross-border implications. In terms of tax competition and setting rates at different levels, that is an established principle that the UK Government understand, as do we.

The broader question is about connectivity, and how we would use the powers that we would have to potentially reduce or remove air passenger duty to ensure that we have better connectivity. You had some interesting discussions in your previous session about the importance of freight. For Welsh business, the rest of the UK is our most important and largest market, so we would need to be exploring what we do to improve connectivity there. We have passengers coming from Swansea, for example, who drive past their local airport to get to Bristol airport in order to take their flights, so connectivity is really important in Wales.

We have been let down time after time by the UK Government, for example with the electrification of the main line to Swansea, so I think that there are infrastructure investments that have not been made. However, if we have devolution of this power, we can take decisions that could benefit our people.

Q157 **Geraint Davies:** It seems to me that the environmental and economic benefits to Wales of having APD devolved—which I accept, by the way, because people do not have to go all the way to Bristol and all the rest of it—are predicated on the idea that Bristol does not have those powers. Would you accept that if we could reduce our APD in Cardiff, and then suddenly Bristol was allowed to as well, the whole thing would get a bit pointless?

Rebecca Evans: There is a broader question there in terms of how we would seek to use our powers, and the principle of the Welsh Government being able to have these powers as well. As you will be aware, Scotland have had the power devolved to them. They have the highlands and islands issues in Scotland, which does not apply to us, so we wouldn't have those particular challenges, and of course Northern Ireland have had APD partially devolved to them for long-haul flights. There is certainly a question of equity here as well, in terms of the powers available to us.

Simon Jones: Can I just amplify the Minister's point about connectivity? The key for us is improving the ability of Wales to connect with the outside world. The economic action plan that Ken Skates launched 12 or 15 months ago talked about connectivity within Wales, within the UK and within the wider world being a fundamental part of the plan for developing our economy. Cardiff in particular, in rail terms, is the poorest connected of the UK's 12 core cities; it has the poorest rail service connectivity with the rest of the UK.



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To try to deal with that, the Economy Minister proposed last year that he establish a series of public service obligation routes to allow connectivity from Cardiff airport to core cities across the UK. The Minister is definitely frustrated that we have not seen any movement from UK Government on that. It was an attempt to improve Cardiff's connectivity with the rest of the UK. This is irrespective of whether Bristol reduces or has reduced APD. The issue for us is not what happens in Bristol; it is connectivity for Cardiff, because of poor rail connectivity.

Q158 Geraint Davies: May I ask about that? In other words, the reduction in APD and the expansion of Cardiff airport would help Wales's case for having its fair share of rail infrastructure, which has been massively neglected in recent times.

Simon Jones: Absolutely right. The Minister has referred to the electrification issue. On top of that, there are things like the fact that Bristol is soon to benefit from six trains per hour to London. Cardiff will only have two trains per hour, and Swansea will continue to just have a single train per hour.

Geraint Davies: It's disgusting.

Simon Jones: So connectivity in south Wales is particularly poor. The whole APD thing and the PSO thing, which was a tactical response to try to deal with some of the APD issues, are about trying to improve connectivity. In a sense, what happens with APD in Bristol is not really relevant to us; this is about improving connectivity for south Wales.

Q159 Chris Davies: Thank you, Minister, for your opening comments. I was intrigued by them, if I may say so. You said, and the transcript will show that you said, that your first priority is to get APD devolved to Wales and your second priority is to decide what to do with it. If anybody were running a business, the priorities would be very much the other way round. The first priority is deciding where you want to go, and the second priority is how to get there. So I'm just baffled by your opening comments on this.

Rebecca Evans: This is an established procedure that we have with UK Government Ministers in terms of how we go about devolving further powers over taxation to Wales. There is a matrix of things that need to happen in terms of us making the case to have powers devolved, but then, completely separate to that, is the ongoing work developing the policy that would sit alongside it. The reason for that is that it is not the interest or not the responsibility of the UK Government to take a view on how the Welsh Government might or might not use a tax that was devolved to us when deciding if and how to devolve those powers to us. They are completely separate pieces of work.

I will give you an example, and this is going on at the moment. It involves vacant land tax. We are seeking powers from the UK Government to be able to introduce new taxes for vacant land. How we go about applying that tax when we have it is entirely a matter for the Welsh Government. It is not a matter, in any way, for the UK Government. But at the same time,



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we are having those discussions with the UK Government in terms of devolving the taxes to us and the process for that.

It is an important point of principle that the policy is entirely for the Welsh Government. However, the discussions that lead to the devolution of the power or tax—that is a matter for joint negotiation between the UK Government and the Welsh Government. So it's a point of process and procedure rather than anything more than that.

Dr Fraser: Can I add to that? These principles were established under the Wales Act 2014. In terms of the potential devolution of APD, it would mean that the Assembly had within its remit the chance to consider what the Welsh Government was proposing to do, following formal consultation. We have formal requirements under the Well-being of Future Generations (Wales) Act 2015, so communities and citizens could actually consider what the Welsh Government was proposing in terms of how air passenger duty was to be applied.

The other aspect to this, of course, is that considering what to do with air passenger duty, should it be devolved, would depend very much on what was devolved. We could look at a range of circumstances depending on whether there was full devolution of air passenger duty or devolution of long-haul or short-haul air passenger duty. That would inform the Welsh Government's consideration of what to do and how to apply the devolved competence.

Q160 **Chris Davies:** My understanding is that the former First Minister is on record as saying that he would like to have seen APD reduced to zero and therefore not applicable in Wales. Do you think that it is fair to the people of mid-Wales and the people of north Wales that we are subsidising a south Wales airport?

Rebecca Evans: We would be very keen to ensure that any benefits brought to Wales through a potential reduction in APD would benefit the whole of Wales. That could certainly be done by improving the freight routes, for example, in terms of short-haul routes. Around 80% of our trade in Wales is within the rest of the United Kingdom, so it would be important for businesses based across Wales to have access to a more local airport to do that trading, but also to have a greater variety of local airports to which those businesses could send their products.

Q161 **Chris Davies:** But there is only one airport in Wales, so we cannot get a greater variety of airports; we are just talking about Cardiff here.

Rebecca Evans: A greater variety of destinations, and potentially an improvement in connectivity for Cardiff, which could boost the route to Anglesey, for example, and increase passengers from that part of north Wales using that airport, should they wish to do so.

Simon Jones: I know that if Ken Skates was here, he would want to make the point that APD devolution would be part of a suite of measures that he would want to be thinking about using to develop the economy of Wales. There are different measures that are appropriate in different



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locations. I am sure he would want to talk about the fact that the rail franchise, for example, will significantly benefit air travellers in north Wales, because the new services from 2022 will include an hourly service from north Wales to Liverpool airport and an additional 20 services a week to Manchester airport from north Wales. The APD needs to be seen in the round, as part of a number of measures that would benefit all of Wales.

The other point I know he would like to make is about the impact of HS2 on Wales. Depending which figures you read, this is a £60 billion to £100 billion project being invested in by the UK Government, which potentially, if the right choices are made at Crewe station, will have a significant benefit for north Wales—according to DFT figures, about £50 million a year of positive economic benefit. For south Wales, according to the DFT's 2010 figures, it is a £200 million a year negative impact as a result of HS2. That is twice as damaging as the tolls on the Severn Bridge were. I am sure Ken Skates would want APD to be seen in the mix as balancing up some of those decisions that are being made that will have a negative impact on south Wales, where north Wales will be getting a positive benefit.

Chris Davies: There is a mid-Wales as well, don't forget.

Chair: May I gently go back to the script? I think Ben Lake is next.

Q162 **Ben Lake:** Thank you, Mr Cadeirydd. I know that it remains to be seen how the Welsh Government would want to use any powers over air passenger duty. However, if air passenger duty was devolved in its entirety and then it was decided that it would be reduced or even scrapped, what is your thinking at the moment about how any shortfall in terms of the funding that would previously have been collected through APD could be made up, and how it would impact the Welsh Government's budget?

Rebecca Evans: The amount of money that is achieved through APD is in the region of £6 million a year, I think, so it is a relatively small amount of money. However, the impact it could have in terms of increasing throughput through our own airport here in Cardiff could obviously be outweighed by that.

Q163 **Ben Lake:** On a slightly different track, we have spoken quite a bit about the potential benefits. Are there any risks that you foresee at the moment from any reduction in APD?

Rebecca Evans: We only really see benefits. I think that is reflected in the kind of evidence that you as a Committee have received from organisations across different sectors in Wales.

Simon Jones: There is the environmental issue, which has been touched on already, and it would need to be subject to an environmental impact assessment as part of the policy-making about how that power would be used.

Rebecca Evans: The Northpoint report has suggested that there would be decreased carbon emissions, for example, due to passengers from parts of



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Wales not bypassing a more local airport to go to Bristol airport. But environmental impact would be part of the consultation and the work we would do in determining how to use APD, as would making choices about our wider responsibilities for carbon reduction, carbon budgeting and so on. Fortunately, I have Andy here, who was the lead official in developing our Environment (Wales) Act 2016, so I thought he might have some further reflections.

Dr Fraser: Thank you, Minister. In the consideration of proposals, should APD be devolved, environmental impact would need to form part of a thorough impact assessment. The Welsh Government would need to think how it would fit into the relevant carbon budget, in terms of climate change impacts, if and when APD devolution is proposed. For example, in the current period—2016-20, which has the first carbon budget—we would need to think about the potential implications of any increased flights and hence increased emissions, and how that would be captured within that carbon budget.

Another important consideration regarding the longer-term impact of a potential increase in flights as a result of a potential reduction in APD would be that we would need to consider the improving and enhanced fuel efficiency of aircraft. We know from the International Civil Aviation Organisation that aircraft produced now are 80% more fuel-efficient than those produced in the 1960s, and we would expect that fuel efficiency to improve over the longer term, and we would expect that any increase in flights would be gradual, so it would run alongside that improvement in fuel efficiency.

Those are the kinds of considerations that we would need to think about in terms of the environmental impact of any reduction in APD rates.

Q164 **Ben Lake:** Very briefly, I am sorry to come back to this, but in terms of the financial budgets, if APD was to be reduced in any way, is it likely that it would be taken out from a particular departmental budget, or would it rather be something that is just taken from the overall Welsh Government budget?

Rebecca Evans: There would be an adjustment in terms of the Welsh block grant, which would reflect APD, which the latest estimates by HMRC for 2017-18 show was in the region of £6 million.

Q165 **Tonia Antoniazzi:** What consideration have you given to Bristol airport and other airports in England that serve south Wales when campaigning for the devolution of APD? We know what the benefits are of such devolution and everybody in Wales is quite keen to see it happen, but have you given any consideration to the impact on the others?

Rebecca Evans: You'll be aware of the Northpoint report, which demonstrated that Cardiff airport and Bristol airport serve two different catchment areas. The Northpoint report demonstrated a very different picture, I think, to the York report. Of course the York report was very narrow, in terms of the evidence it looked at, whereas the Northpoint



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report is a much wider piece of work, which has been peer-reviewed as well, which is very important.

I think we need to come from the starting point that people from Wales are being massively inconvenienced in having to drive past their own local airport to go to another airport in Bristol. That's important, in terms of that whole connectivity issue but also in terms of just a common-sense approach to travel.

Q166 Tonia Antoniazzi: You have talked about the report, and the Northpoint report and the York Aviation report offer contradictory summaries. So, can you really take anything conclusive from the reports, when the consultants just produce the findings to reflect the people who commissioned them, really?

Rebecca Evans: I don't think that's necessarily a fair reflection, given the research that was produced. The Northpoint report has certainly been peer-reviewed, so we're not comparing like with like with the two reports, actually; we're comparing two different levels of quality of report, I think it is fair to say.

I also think it's important to recognise that the UK Government are already distorting the market in favour of English airports, and certainly to the detriment of Cardiff airport in particular. The whole HS2 issue has been referred to; the issue of the public service obligation routes has been talked about. Regulatory burdens are much easier for larger airports to deal with than smaller airports, so, again, that puts Cardiff airport at a relative disadvantage.

Just yesterday, my colleague Ken Skates formally opened the new e-gates at Cardiff airport. Of course, the UK Government have been investing in e-gates elsewhere; it's not a Welsh Government responsibility to do this, but we're doing it as part of our investment in the airport.

So there are several things that naturally disadvantage Wales and Cardiff airport particularly as opposed to Bristol airport.

Q167 Tonia Antoniazzi: Is there a commitment from the Welsh Government to improve connectivity to Cardiff airport, because coming from the west of Wales is quite a challenge, unless you are taking the car, and we want to reduce our carbon footprint? What commitment are the Welsh Government putting into that?

Simon Jones: Once we get the new rolling stock, the new rail franchise that I talked about earlier will include an additional train every hour to Cardiff airport, from the east and from the west, so that will be two trains per hour to Cardiff airport station. Later this year, the new Five Mile Lane road will be opened, which is a straightening out of the link between Barry and the A48. We are investing in improved connectivity at the moment and continuing to invest in things like the T9 bus, which runs from Cardiff central station down to the airport.

We are investing in connectivity. We absolutely recognise that a big part of



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airport success is about surface access—just look at the investment that has been made over at Bristol and look at the investment made elsewhere in the UK in terms of surface access. We have talked about HS2 and how that might link to places like Heathrow. It is a really important point, and we continue to invest.

Dr Fraser: I want to address quickly the point made about the comparison of the Northpoint and York Aviation reports. As the Minister indicated, the Northpoint research was independently peer reviewed by two separate organisations. We understand that there was no peer review process put in place with the York Aviation report. One of our concerns about the York Aviation work was that, in terms of identifying and analysing the catchment areas for Bristol and Cardiff airports, one single 90-minute journey time metric was used for all types of service that operate from the airports, whereas in the Northpoint report there was a more sophisticated methodology, looking at different journey times according to the different types of services operated by the airports. That led to a conclusion that there are distinct catchment areas for both areas, rather than a more overlapping one, as suggested by the York Aviation report.

Simon Jones: The Northpoint report makes a point that I think has been glossed over. The assertion is that there is a single catchment area. I think the lie is given to that when you look at the fact that one and a half million-ish passengers from Wales use Bristol airport, but there are a few tens of thousands of passengers from the English side of the Severn who use Cardiff airport. If there was truly a single catchment area, we would see far more passengers from the English side coming to Wales than we do at the moment.

Q168 **Chris Davies:** I have a small question. Mr Jones, you mentioned connectivity being an issue. How would you assess the lack of progress on the M4 relief road? Is that putting more of a burden on Cardiff airport than the airport tax duty?

Simon Jones: It's probably not right for me to say anything about the M4 at the moment, given the Newport West by-election and the fact that the First Minister is considering the inspector's report at the moment.

Chris Davies: Good answer.

Q169 **Chair:** I am just scribbling a quick note, as something has just occurred to me. I should have put this to the previous panel, really. Given the level of APD on short-haul flights, and the point you have just made, which is a fair one—that very few passengers are going from England to Wales, but many are going from Wales to England—would it be possible to argue that the ending of the Severn bridge toll, at around £6.87, which is a similar price to short-haul APD—

Dr Fraser: Half the price.

Simon Jones: If it's a round-trip within the UK, it is a quarter of the price.



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Chair: Could it be argued that that could have given a slight boost to Bristol airport?

Simon Jones: I guess so, yes.

Q170 **Chair:** I will have to think that one through a bit. The figure of £7 is clearly not encouraging many people to go from England to Wales at the moment.

Rebecca Evans: I think there is a point there, in the sense that it is not passengers directly who would be paying the APD, whereas, of course, passengers directly would be paying the Severn bridge tolls. We are clearly monitoring that situation, but I think it will be potentially a few years before we can properly understand the impact of removal, particularly in terms of potential for more house building on the Welsh side of the Severn. There will be ongoing monitoring.

Q171 **Chair:** I was going to bring you in, if possible, Geraint, but I wonder if I could just I ask you something, Minister? I wonder what you would say to colleagues in your own political party who are concerned about the overall environmental impact that devolving APD with a view to reducing it would have, because I am not sure that there is cross-party support or even unity within political parties on this particular issue. I shall bring Geraint Davies in straight after you have answered that.

Rebecca Evans: I would say that, in Wales, we are very fortunate to have introduced some very progressive legislation. We have the Well-being of Future Generations Act and the Environment (Wales) Act, both of which seek to ensure that decisions taken by Government are done so with the best intentions for the environment taken into account. Of course, we have carbon budgets, and we are developing our own response to the Climate Change Commission's report. Lots of work is going on, so this decision would not be taken in isolation as a purely economic decision, but would be subject to the usual environmental impact assessments, exploring our overall duties of carbon reduction.

Q172 **Chair:** So MPs with concerns about the environment need have no fear that a Labour Government in Wales would do anything to undermine their environmental commitments.

Rebecca Evans: We are absolutely and wholeheartedly committed to our environmental obligations. We have led the way with some of the legislation that we have introduced in this area.

Q173 **Geraint Davies:** It seems clear to me that if people who are currently travelling from Wales to fly from Bristol stay in Wales, it will be good for the environment. In terms of the combined effect of taking the tolls away and taking APD away, there will presumably be a welcome boost to people from Bristol going to Wales. I know it does not happen at the moment, but there will be a double incentive for people from Bristol to fly from Cardiff. I am not saying that is a bad thing. It is obviously good for Wales. Would you agree with that?



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Rebecca Evans: They would certainly have the option. However, as Andy said, the Northpoint report, in particular, suggests that there are two separate catchment areas—one for each of the airports.

Q174 **Geraint Davies:** There has been some discussion in the evidence about how there is a compelling case, in particular, for long haul as opposed to short haul. Do you agree with that and, if so, why? Why do you think the UK Government have been so slow to devolve long-haul APD?

Rebecca Evans: We have long maintained that we desire to have long-haul and short-haul APD devolved to Wales, and that position has not changed. In terms of why the UK Government have been slow to respond to our concerns, I can refer to the recent bilateral meeting I had with Liz Truss. I took the opportunity there, as we always do when we meet with UK Government Ministers, to press the case for devolution of air passenger duty. We talked about the different evidence that we have received. The Chief Secretary to the Treasury was talking about the York report, whereas I was referring to the Northpoint report.

There is ongoing discussion. I made the point to Liz Truss at that meeting that I was really pleased this Committee is undertaking this inquiry, and that we want and expect her to respond quickly to the Committee's recommendations, should it come to a conclusive decision on this issue, because of the breadth of evidence that you have been taking.

Simon Jones: Can I add to the point specifically about long haul versus short haul? The connectivity issue is the key thing, certainly for Ken Skates. I reflect back to the desire to implement these eight or 10 public service obligation routes to places such as Manchester, Aberdeen, Norwich, Leeds and all the rest of it. Those places are within the UK. We wanted to impose those PSO routes because the market has failed: it is not providing those services at the moment. We have poor connectivity to those locations at the moment. They are felt to be economically important places, because 80% of Welsh businesses' trade is with the rest of the UK, as the Minister said.

The PSOs were really a mechanism to get around the APD challenge. PSOs are not subject to air passenger duty, so that would have removed £26 off the ticket price. Short haul is really important to us. You heard evidence from Flybe, which talked about its reasons for cancelling its service between Cardiff and London, and a large part of that was because of the £26 burden of APD on that route. I have just talked about the fact that rail services are much poorer from Cardiff than they are from Bristol—two trains an hour, or one train an hour from Swansea, versus six coming up from Bristol. If just long haul were devolved, it would not allow us to deal with the connectivity issues that are so important to beginning to solve some of the problems of the Welsh economy.

Q175 **Geraint Davies:** That has been very helpful. Can I ask about the Welsh carbon budget? Andy Fraser mentioned it. If there is a dramatic increase in long-haul flying from Wales, will that have a dramatic effect on the carbon budget? There is a question about whether they are extra flights



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or, to a certain extent, displaced flights. If they would have happened elsewhere in Britain, for argument's sake, the carbon impact would be neutral. Why should we worry if we get more money and the net amount of UK carbon output is the same, even though our carbon goes up a bit?

Dr Fraser: That is an interesting point. In terms of Wales's carbon budget, that would cover only the jurisdiction of Wales—so any emissions that were sourced from within Wales, which would include flights from Cardiff airport or RAF Valley in Anglesey. I referred earlier to the timeframe for devolution and any increase in flights. You would not expect a dramatic sudden increase in flights, and hence in emissions. It would likely be gradual over a number of years and decades.

Any impact would obviously affect UK carbon budgets, which are established under the UK's Climate Change Act 2008. There would be an impact on the UK's emissions, but that would form one element of a larger picture in terms of emissions from industry and wider transport as well. That would need to be considered in the round. For Wales, under the auspices of the Environment (Wales) Act, that would capture any increase in flights from Cardiff.

Q176 **Geraint Davies:** Over the UK. I guess one could argue, as Simon Jones has suggested in some sense, that there is a compelling case for more investment in Welsh infrastructure to build productivity, because we have only 70% of gross value added in the UK. If the environmental impact across the UK was going to be neutral, it would be better to get those economic benefits in Wales, given that we would just be moving some of the economic activity to Wales, where we need it more, from where we need it less. Is that fair?

Dr Fraser: Yes.

Chair: I call Ben Lake.

Q177 **Ben Lake:** Diolch, Mr Cadeirydd. I will go off script for a moment. Do the Welsh Government have any opinion, view or intention when it comes to the possibility of expanding or constructing new airports in Wales?

Simon Jones: There are a number of other airports in Wales. We have not talked about places such as Valley to any great extent, and we have not talked about Withybush at all. Locations such as that could significantly benefit from things such as APD or PSO. We have a successful PSO that runs from Anglesey to Cardiff, as you know. That is APD-exempt, but it still requires a subsidy to operate.

The Minister's intention was to see whether the first wave of PSOs that he proposed for Cardiff airport was successful. The premise of that was, of course, that we would go to the market, not offer any subsidy—it would just be APD-exempt—and see what market interest there was in operating those routes. If they were successful, we would review that and see whether there was potential for a second tranche, which might include



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places such as Withybush and Valley, to offer them some other destinations.

We have made representations to the UK Government about Heathrow expansion. We feel that there is a case for flights from other parts of Wales—not necessarily from Cardiff, but from other parts of Wales—to come into an expanded Heathrow. That will never be commercially viable with the £26 burden of APD on them.

Perhaps PSOs are a way forward, but the UK Government have blocked us from taking forward our PSO ambitions, and it is likely that that block will be in place for the next two or three years, frankly, so there is not a short or medium-term solution to us dealing with all that lot. The devolution of APD might allow us to be in control of our own destiny when our hands are being tied by UK Government.

That agenda is there for other airports. We have talked with colleagues in Pembrokeshire council, which owns Withybush, about these kinds of things. Valley is a slightly different proposition, because it is owned by the MOD, and they have some restrictions there in terms of the size of the plane and the hours of operation, but we work very closely with our colleagues in the RAF, and if there were viable options, we would be keen to talk to the RAF about how they might be able to be accommodated.

Q178 **Ben Lake:** But it would be fair to say that, without the devolution of APD, you are prevented from having those discussions, let alone actually—

Simon Jones: Certainly, with our hands tied behind our back as far as PSOs are concerned, that door has been effectively shut for us by the UK Government, for reasons that are not clear to us. APD is the only other option, and we do not think that routes are going to be viable. You heard, as I said, from Flybe, who said that the route from Cardiff to London was not viable because of the APD burden. I guess the same would likely be true of routes from places like Withybush to Birmingham, London or wherever.

Ben Lake: Or Aberporth.

Simon Jones: Well, quite.

Q179 **Ben Lake:** I should probably return to the script now. What I was supposed to ask you was whether or not, in your discussions with the Treasury and with Liz Truss, in particular, Brexit and the potential consequences of the UK leaving the European Union have impacted on the case you are able to make for the devolution of APD, and whether it helps or hinders.

Rebecca Evans: Certainly, were APD to be devolved, it could help us in terms of meeting some of the significant economic challenges that we know will be coming as a result of Brexit and helping us to adapt more fully to life post Brexit. Potentially, one of the reasons why the UK Government have not been able to respond more positively and more quickly on this issue is because so much effort is now being focused,



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understandably, on the issue of Brexit that it is almost hard to get movement on anything else, be it social care Green Papers or APD. It is difficult to have those conversations.

Chair: Well, let's hope it's all sorted out next week.

Geraint Davies: We'll stay in Europe.

Simon Jones: I think if Ken Skates were here, he would want to make the point that improved connectivity is a key point for us post Brexit. The need for Wales to be better connected with the rest of the UK and the wider world is fundamental to our economic prosperity in future, particularly in a post-Brexit world, so anything that allows us to improve our connectivity—we are talking about APD today, but anything like that—will be a valuable tool in the armoury.

Chair: Thank you very much indeed, Minister, Mr Jones and Dr Fraser, for giving evidence today. Diolch yn fawr.