

tourism
INDUSTRY
ASSOCIATION NEW ZEALAND

30 November 2010

Ms Justine Greening MP
Economic Secretary
HM Treasury
1 Horse Guards Road
London SW1A 2HQ
ENGLAND

Dear Ms Greening

United Kingdom Air Passenger Duty (APD)

On behalf of the Tourism Industry Association of New Zealand (TIA), the Inbound Tour Operators Council (ITOC), and the New Zealand Airports Association (NZ Airports), we write to you concerning the United Kingdom Air Passenger Duty (APD).

TIA is the lead association that represents the interests of thousands of New Zealand tourism businesses that cover a range of activities in the hospitality, transport, accommodation, adventure and activities sectors. ITOC, a member of TIA, represents the many inbound tour operators who bring visitors to New Zealand and NZ Airports, also a TIA member, represents New Zealand's commercial airports, including the main international airports of Auckland, Wellington and Christchurch.

Background

Tourism is a major contributor to the New Zealand economy, contributing 9% of gross domestic product (GDP) as well as directly and indirectly employing one in ten New Zealanders. In the year ended March 2010, visitor expenditure reached \$22.4 billion (£10.88 billion) with international visitor expenditure accounting for \$9.5 billion (£4.6 billion) of this. The money that visitors spend supports thousands of small to medium businesses and many thousands of jobs at all levels of New Zealand society.

The UK market is a highly valuable one for New Zealand as illustrated by the following statistics:

- The UK is New Zealand's second largest inbound visitor market after Australia.
- In the year to October 2010, more than 240,000 people from the UK visited New Zealand.
- The average length of stay for a UK visitor to New Zealand is 29.7 days and the average expenditure for each of these visitors is \$3027.
- The combined spend of UK visitors to the year ended September 2010 was \$710 million (£345 million) per annum.

- More than 180,000 (82%) of UK visitors travel beyond New Zealand's main tourism centres to the regions of the country, and through their spending and activity support and enhance the communities and businesses in these regions.

So why is the New Zealand tourism industry concerned about the UK APD?

The tourism industry in New Zealand is worried that the imposition of air travel taxes, such as these, will be the catalyst for other European states to do the same. Germany is introducing a new air travel tax on 1 January 2011 while Austria has just announced plans to introduce a similar tax to Germany's which could also take effect in 2011. TIA, ITOC and NZ Airports believe that air travel taxes of this nature use travellers as an easy target to meet debts faced by state jurisdictions.

Only recently New Zealand Prime Minister (and Minister of Tourism), John Key, was quoted as saying the UK APD is a "revenue-collecting exercise", while Foreign Affairs Minister Murray McCully said it "is a punitive tax as far as more distant nations like New Zealand are concerned".

The APD is and will continue to be a barrier to attracting UK visitors to long haul destinations like New Zealand. At the same time, it will also deter New Zealanders from travelling to the UK as they too will have to pay the APD when departing the UK on their return journey.

The introduction of APD in 2009, and increase in 2010, comes at a time when the tourism industry globally, not just in New Zealand, is facing challenging times. It is well established that the volume of leisure air travel is affected by fare levels, and while this tax on its own may not be a deterrent to travel, it is a deterrent to long haul destinations when combined with exchange rate impacts, increased fare prices and less discretionary spending across the whole global economy.

As a percentage of an average economy class return fare between London and New Zealand, APD is about 10% of the ticket price and when this is combined with already existing taxes, it brings the total tax on the ticket to more than 20% of the fare. In raw numbers, the per person charge of £85 (\$175) brings the total cost of ticket taxes on a London- Auckland return to about £315 (\$648). When this is extrapolated, it means a couple will pay £630 (\$1295) and a family of four, £1260 (\$2590) for travel between the UK and New Zealand. Premium travellers will be paying twice these amounts.

Long haul destinations (band D) are further disadvantaged in that the APD is seven times more than APD to short haul European destinations (band A). As New Zealand's Associate Transport Minister, Hon Nathan Guy has said, "We believe that travellers to distant locations like New Zealand and the South Pacific should not be unfairly penalised".

The industry is concerned that a decline in the number of UK visitors to New Zealand, that began in 2007, will accelerate and further harm the viability of many small to medium sized business (SMEs) in New Zealand. The tourism industry in this country is characterised by SMEs and these businesses are geared to, and dependent on the activities that UK visitors like to undertake when in New Zealand.

There is little evidence to suggest that the revenue collected from APD will contribute to environmental and carbon-reduction initiatives. Instead, it is seen by the tourism industry, and for that matter, many other sectors, as a blunt taxation instrument that will return revenues to

the consolidated fund. It is our understanding that the UK government intends to generate £520 million from the APD without any specific environmental initiatives in mind.

As well as deterring travellers, the APD is also having a huge impact on airlines that are already making a contribution of £2 billion to the UK government's consolidated accounts. Currently, this contribution is more than four times the estimated environmental impact of the UK's aviation emissions.

The APD will have a cumulative negative impact on an aviation industry which is already under pressure to manage carbon-related taxes. New Zealand has introduced an emissions trading scheme (ETS) and from 2012, aviation will enter the EU ETS, a cap and trade scheme where the industry will have to pay for any emissions over its cap.

The distance bands (New Zealand in band D) are effectively taxing the emissions of the flights of non-UK airlines over the territories of other countries. As the Board of Airline Representatives in the UK (BARUK) has pointed out, this is akin to extraterritorial jurisdiction, which is at odds with Article 1 of the Chicago Convention that says the territorial state "has complete and exclusive sovereignty over the airspace above its territory".

To deal with greenhouse gas emissions effectively, an international solution is needed not unilateral action. Such a solution needs to be based on science. If the UK does not change to a flat tax at the time the EU ETS is extended to cover aviation in 2012, the danger is that the UK example will lead to a global rise in competing air tax regimes which are both arbitrary and discriminatory. The decisions by Germany and Austria are similar in this respect.

We also consider that the efforts of airlines to reduce their carbon footprint, for example through the development of bio-fuels and investment in more fuel-efficient fleets, should be recognised and encouraged by national governments. This is not possible with a blunt instrument like APD.

Conclusion

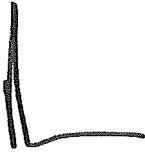
The APD when combined with other UK based air travel taxes is not only a strong disincentive for UK travellers making a trip to New Zealand, it is also a deterrent for visitors from many countries making the trip to the UK as they too will have to pay APD on departure. Furthermore, it comes at a time when incentives, not barriers need to be in place to encourage global travel and kick-start world economies.

The New Zealand tourism industry believes the APD is being disguised as an environmental initiative without evidence to show that the revenue being collected is being allocated to green programmes. To deal with aviation emissions, a multilateral solution is needed, not unilateral action as imposed by the UK government.

While TIA, ITOC and NZ Airports are aware that New Zealand's Foreign Affairs Minister Murray McCully has made representations on behalf of our government to British Foreign Secretary William Hague, the industry in New Zealand is urging UK officials (via the NZ Ministry of Foreign Affairs and Trade) to consult with it so they can better understand the impacts APD is having for New Zealand tourism businesses.

We look forward to your reply.

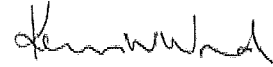
Yours sincerely

A handwritten signature in black ink, appearing to be 'Tim Cossar', with a large, stylized initial 'T'.

Tim Cossar
Chief Executive
TIA

A handwritten signature in black ink, appearing to be 'Paul Yeo', with a large, stylized initial 'P'.

Paul Yeo
Chief Executive
ITOC

A handwritten signature in black ink, appearing to be 'Kevin Ward', with a large, stylized initial 'K'.

Kevin Ward
Chief Executive
NZ Airports

cc Rt Hon John Key, Prime Minister and Minister of Tourism
cc Hon Murray McCully, Minister of Foreign Affairs and Trade
cc Hon Steven Joyce, Minister of Transport