



tourism  
INDUSTRY  
ASSOCIATION NEW ZEALAND

**Submission to**  
**HM Treasury**  
**on the**  
**Reform of Air Passenger Duty (APD)**  
**17 June 2011**

## Introduction

1. This is a joint submission made on behalf of four of New Zealand's largest tourism and travel organisations, namely;
  - the Tourism Industry Association New Zealand (TIA)
  - the Inbound Tour Operators Council (ITOC)
  - the New Zealand Airports Association (NZAA)
  - the Travel Agents Association of New Zealand (TAANZ)

The respective roles of these organisations are detailed in paragraphs 4-9.

2. TIA, ITOC and the NZAA wrote to Ms Justine Greening (letters attached as Appendix 1 and 2), the United Kingdom's (UK) Economic Secretary on 30 November 2010 outlining the main concerns the industry had at that time about the APD. Those concerns largely remain. This paper will represent that evidence along with new information and evidence that has been gathered since then. The submission will also make comment on particular parts of the consultation paper.
3. Enquiries regarding this paper should, in the first instance, be directed to Simon Wallace, Policy and Research Manager at TIA, by telephone on 0064 4 494 1842, by e-mail at [simon.wallace@tiaz.org.nz](mailto:simon.wallace@tiaz.org.nz) or by mail to:

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## The roles of TIA, ITOC, NZAA and TAANZ

### **Tourism Industry Association New Zealand (TIA)**

4. TIA is the lead association that represents the interests of about 1,700 tourism businesses in New Zealand. The Association was first established in 1955 and the businesses TIA represent cover a range of tourism-related activities – hospitality, transport, accommodation, adventure and activities, attractions and retail as well as related tourism services.
5. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events and membership and business services. The TIA team is based in Wellington and led by Chief Executive Tim Cossar.

### **Inbound Tour Operators Council (ITOC)**

- 6 The Inbound Tour Operators Council of New Zealand (ITOC) is a Trade Association made up of Inbound Tour Operators and the full range of product suppliers who deliver tourism services throughout New Zealand. ITOC has

represented the interests of inbound tourism operators since 1971, and today collectively handles most of New Zealand's holiday visitor arrivals. ITOC members work together to expand the market to the benefit of New Zealand tourism and our overseas visitors.

### **New Zealand Airports Association (NZAA)**

7. The New Zealand Airports Association is the industry association for New Zealand's airports and related businesses. It is a not-for-profit organisation whose members operate 31 airports that span the country and enable the essential air transport links between each region of New Zealand and between New Zealand and the world.
8. Air services are the lifeblood of New Zealand tourism and trade, and airports play a major role in developing and strengthening those air services. While airlines and air services may come and go, airports are at the heart of their communities and regional economies for the long term. Airports make a vital contribution to healthy and vibrant communities by connecting businesses, families and friends, and make full participation in many sporting and cultural events possible.

### **Travel Agents Association New Zealand (TAANZ)**

9. The Travel Agents' Association of New Zealand (TAANZ) is a trade organisation representing the travel agent and tour operator distribution system in New Zealand. There is no government licensing for travel agents so TAANZ is a self regulating organisation promoting quality standards, customer service and business services to its membership. TAANZ membership is comprised of over 90% of the agents operating in New Zealand and more than 80% of the outbound volume totalling \$2.6 billion annually.

## **Background**

Inbound (UK visitors to New Zealand)

10. As New Zealand's single largest export industry, tourism provides valuable export dollars with much of this money spent in the country's more rural and remote regions. Below is a snapshot of the economic value provided by tourism to the New Zealand economy:
  - Tourism contributes more than 8.7% of gross domestic product (GDP) for New Zealand as well as directly and indirectly employing one in ten New Zealanders.
  - Tourism in New Zealand is a \$61 (£30.5) million per day industry. The New Zealand tourism industry delivers \$26 (£13) million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another \$35 (£17.5) million in economic activity every day.
  - Tourism expenditure reached \$22.4 (£11.2) billion for the year ended March 2010. International visitor expenditure accounted for \$9.5 (£4.75) billion or

18.2% of New Zealand's foreign exchange earnings.

- Importantly, and despite more challenging times in the past three years, tourism is again New Zealand's largest foreign exchange earner with its contribution felt at national, regional and local levels.

11. The UK inbound 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 ended April 2011, more than 222,803 people from the UK visited New Zealand. The make-up of these visitors was 45% who came for holiday, 46% who came to visit friends and relatives and 5% who came for business. The remaining 4% of visitors came for other reasons.
- The average length of stay for a UK visitor to New Zealand is 32 nights and the average expenditure for each of these visitors is \$2,885 (£1,442).
- The combined spend of UK visitors to the year ended March 2011 was \$600 (£300) 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.

Outbound (New Zealanders travelling to the UK)

12. New Zealand is also an important source market for Britain's own visitor industry. In the year ended March 2011, more than 93,000 New Zealanders chose the UK as a holiday destination or went there for business. This means the UK represents about 5% of New Zealand's total outbound market which is not insignificant given the distance.

13. While New Zealanders may represent just 0.4% of the UK's 22 million international visitor arrivals (paragraph 2.10 of consultation document), they stay longer and spend more than many other nationalities that visit the UK.

## **Comment**

### **Why are the New Zealand tourism and travel industries concerned about the UK APD?**

14. 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 is also a deterrent for New Zealanders travelling to the UK on holiday or business. These people also have to pay the APD when leaving the UK on their return journey, while a number of New Zealanders also fly to cities in mainland Europe from the UK. This means

they are paying APD again on these short haul trips.

15. The outbound impacts (New Zealanders travelling to the UK) of the APD were not covered extensively in the earlier submission made to Justine Greening. This time, with the assistance of the Travel Agents Association of New Zealand (TAANZ), the NZ equivalent of the Association of British Agents (ABTA), new information has been obtained to inform the submission.
16. TAANZ has gathered feedback and views from its travel agent members to better understand the impact the APD is having on New Zealand travellers' decisions to go to the UK, as well as their buying and purchasing patterns once in the country. The results show that the APD is having a deeper impact on New Zealanders travelling to and from the UK than was initially thought.
17. A selection of verbatim comments from New Zealand travel agents is detailed below in order to help HM Treasury officials better understand the impacts.
  - a. "Many of our passengers are choosing not to fly out of the UK because the tax is unfair and unreasonable, which means most times they just avoid the UK altogether. They may decide to go, but will fly out of another port in Europe. This is often done at our advice as we always quote the difference in the taxes especially if there is more than one passenger and if they are travelling in any other class than economy".
  - b. "What is unfair about the higher revenue fare tax is that some people travel in premium or business class not because they are wealthy, but because of extenuating circumstances. It is not even as if the airport authority or indeed the UK government is offering a greater service to the higher class passengers. It just makes the UK government look greedy as everyone realises the green tax issue is a farce and is instead revenue gathering".
  - c. "Quite often they will ask for alternative routes for travel to Paris or Amsterdam and will then train over to the UK".
  - d. "More and more customers are electing to use other hubs in Europe (Paris, Rome and Frankfurt) as their main entry and exit points. This generally means they spend less time in the UK than otherwise they would have"
  - e. "The additional tax definitely is affecting the way people travel. I have had clients this year say we don't need to travel in the UK and have travelled to other places in Europe instead. Also, a number of passengers have said, blow it we will fly into the UK and then Eurostar from London to Paris and go home from there. There is no doubt in my mind that less pounds are being spent in the UK because of the huge escalation in the cost of their tax".
  - f. "People are going to be more open to travelling straight to the UK if the taxes are more reasonable, especially business class passengers who

don't feel they should be charged double the tax when they are travelling on the same aircraft as economy class people”.

- g. “If the tax is presented as a green tax, there is no reason why the business and premium classes should be charged double. This is certainly one of the biggest gripes”.
- h. “A lot of people may only stay a night or two before leaving to go to Europe. The cost of things like accommodation in London is quite expensive in itself and if the taxes were cheaper they would probably use that money towards an extra night's accommodation in London and therefore spending more on sightseeing and eating out”.
- i. “A lesser tax would see more clients purchasing more UK product instead of European products”.
- j. “There is no doubt in my mind that less money is being spent in the UK because of the huge escalation in their cost of tax”.
- k. “I have just returned from escorting one of our tour group tours into Europe and researching next year's new itineraries. Without a doubt we are going to bypass London for nearly all groups we plan sending there. Many of our clientele this year have used higher grade fares so are penalised even greater. The APD will have an effect on travel involving the UK and this also includes the Olympics as we are planning add-ons allowing departures from alternates”.

18. From the above comments, it is clear the APD is having a significant impact on the purchasing decisions of New Zealanders in the UK on holiday or business. Anecdotal evidence suggests it is also forcing many UK residents to depart from continental European points to avoid paying APD.

19. The introduction of APD in 2009, and increase in 2010 also came at a time when the tourism industry globally, not just in New Zealand, has been facing challenging times. Recent natural disasters in New Zealand (earthquake in Christchurch) and Japan (tsunami in northeast of the country), as well as the Middle East crisis, have done little to ease the economic conditions that are impacting worldwide travel patterns.

20. It is well established that the volume of air travel is affected by fare levels and while the APD on its own may not be a deterrent to travel, it is for long haul travellers when combined with exchange rate impacts, increased fare prices and less discretionary spending across the whole economy.

### **Confronting the Environmental Challenge (pages 13-16 of consultation document)**

21. Arguably, one of the strongest reasons TIA, ITOC, NZAA and TAANZ has in opposing the APD is the premise by the UK government that the revenue from this tax is being used for environmental and carbon-reduction initiatives. It is viewed instead by New Zealand's tourism and travel industries as a blunt taxation instrument that is seen to be returning revenues to HM Treasury and

- reduce national debt. The submitters understand the UK government intends to generate £520 million from the APD without any specific environmental initiatives in mind.
22. The HM Treasury's own consultation paper casts doubt on the emissions of short haul versus long haul travel (paragraph 3.4). So, while the paper states that short-haul flights typically emit less than long-haul given the difference in distances travelled, long-haul flights have a lower CO2 emission per passenger kilometre. The paper also says that "in assessing the emissions impact of aviation, it is important to recognise the much faster growth of short-haul traffic relative to long-haul traffic in recent years".
  23. As well as deterring travellers, the APD is 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.
  24. It should be noted that the UK is not the only country applying so-called environmental taxes. An increasing number of countries, not just within Europe, are imposing an environmental tax of some sort to meet carbon trading requirements. This is creating a real risk of passengers unknowingly paying multiple payments for the same flights.
  25. Over time, the APD will have a negative impact on an aviation industry that 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 European Union (EU) ETS, a cap and trade scheme where the industry (and passengers) will have to pay for any emissions over its cap.
  26. The current distance bands (New Zealand in Band D) are in effect taxing the emissions of the flights of non-UK based airlines over the territories of other countries. As the Board of Airline Representatives in the UK (BARUK) noted in a 2008 paper on APD, this is akin to extraterritorial jurisdiction and 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".
  27. To deal with greenhouse gas emissions effectively, an international solution is needed, not unilateral action. 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 worldwide rise in competing air tax regimes which are both arbitrary and discriminatory.
  28. In December 2006, Brian Pearce, an economist with the International Air Transport Association (IATA) said "taxing passengers with APD will only reduce greenhouse gas emissions by discouraging travel. There is no direct financial incentive for efficiency or technological improvements. The APD is a very blunt instrument with which to tackle aviation's climate change impacts. It fails to acknowledge the efforts made by airlines to reduce their carbon footprint through the deployment of more fuel efficient fleets and the trialling of bio-fuels".

29. In his work, Pearce also detailed the cost to economic development, quoting an Oxford Economics study saying that for every 10% gain in business travellers there is a long-run boost to GDP of 0.6% due to the benefits from increased investment and productivity. This equates to a £400 million loss to UK GDP.

### **Options for Reform of Air Passenger Duty (pages 17-21 of consultation document)**

#### Current APD regime

30. As a percentage of the average economy class return fare between London and New Zealand, APD equates to approximately 10% of the ticket price. When this is combined with already existing taxes, it brings the total tax on the ticket to more than 20% of the passenger's airfare.
31. In raw numbers, the per person charge of £85 brings the total cost of ticket tax on a London-Auckland return ticket to £315. When this is extrapolated, it means a couple will pay £630 and a family of four (if two children are aged over two), £1260 for travel between the UK and New Zealand. Premium travellers will be paying twice these amounts.
32. Long haul destinations (band D) are further disadvantaged in that APD is seven times more than it is to short haul European destinations (band A). Meanwhile, APD is eight and a half times higher than the European average. According to the Airport Operators Association (AOA, 23 March 2011), "many European countries have either already abandoned their aviation taxes, or indicated that they will do so, due to the negative effects on their economies, including Belgium, Denmark, Germany, Holland, Ireland and Malta".

#### The new proposals

33. As noted in paragraph 26, TIA, ITOC, NZAA and TAANZ do not support APD and the banding approach as it penalises long haul destinations like New Zealand. In a joint communiqué issued by Australia, Kenya, New Zealand, Seychelles, Singapore and South Africa at ITB in Berlin on 11 March 2011, these countries said APD was a "unilateral, discriminatory tax on long-haul destinations". The communiqué went on to say that unilateral taxes and the basis for its calculation were inherently discriminatory favouring short haul flights over long haul travel with the level of tax excessive.
34. The New Zealand organisations believe that if the UK government is to apply an APD in any form, then it should consider a flat per person levy across the board irrespective of destination or class of travel undertaken. While the two and three band options are less discriminatory than the current four band system, the tax of £65 to £75 for Band B in a two band system or £72 to £83 for Band C in a three band system is still high and a barrier to prospective travel to long haul destinations.

### **International Civil Aviation Organisation (ICAO) taxation policies**

35. While not familiar with the detailed nature of ICAO taxation policies, the submitters believe HM Treasury needs to be mindful of the UK's obligations

under the 1944 Chicago Convention (refer paragraph 4.5 of consultation document). This Convention sets out certain parameters around the imposition of taxes and levies for domestic and international passengers worldwide.

### **Commonwealth**

36. New Zealand, as with other Commonwealth nations, has a long held and deep rooted connection with the UK. These connections go beyond family and ancestral relationships and extend to the political, sports and cultural arenas. For decades, "Kiwis" have embarked on an overseas experience, commonly referred to as the "big OE", while Britons have come here on working holidays.
37. It is these historical Commonwealth connections that have been responsible for much of the travel that has taken place between New Zealand, many other Commonwealth countries and the UK for many decades. The APD that is currently applied to long haul destinations shows little regard for the status of the Commonwealth relationship which aside from its economic benefits, has resulted in social and cultural ties that have been both rich and enduring.

### **Conclusion**

38. 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 many visitors and business travellers from this country who may be thinking of travelling to and from the UK.
39. The tourism and travel industries in New Zealand believe the APD is being disguised as an environmental initiative without any evidence at all to show that the revenue being collected is actually being allocated to carbon reduction or environmental related initiatives. To deal with aviation emissions, a multilateral solution is needed, not unilateral action like that being imposed by the UK government. Furthermore, aviation will be included in the EU ETS from the beginning of 2012 raising the question of whether the APD can be justified on that basis.
40. We strongly submit that the APD in any form is an arbitrary and unjustified tax, an impediment to tourism, travel, trade and economic growth, and should be abandoned in its entirety. If the UK government proceeds with the APD it should be in the form of a flat per person levy across the board irrespective of destination or class of travel undertaken.

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