

# APD is just one of the questions facing NI's tourism industry

Contact: Richard Ramsey  
Chief Economist, Northern Ireland  
02890 276354 or 07881 930955

[Richard.ramsey@ulsterbankcm.com](mailto:Richard.ramsey@ulsterbankcm.com)

[www.ulsterbank.com/economics](http://www.ulsterbank.com/economics)

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When we think of Northern Ireland's tourism industry of recent years, the things that come to mind might include big events, full hotels and soaring visitor numbers. You might even be forgiven for thinking that all is well and the only way is up. But a look beneath the surface reveals that, whilst there is a lot to be positive about, it's not clear-cut, and things might be a little more complicated than they first seem.

One of the important things to look at is profitability. Despite all of the positives, the reality is that profitability in the hotel industry in 2012 was actually well down relative to 2007. The record highs in visitor numbers have simply not translated into record profitability. Factors within our nearest rival market, the Republic of Ireland, and, related to this, what has been happening within the cost base of Northern Ireland's own tourism industry help explain.

The UK has experienced one of the highest cumulative rises in Consumer Prices Index (CPI) inflation within the EU-28 economies over the last 6 years (+21%). Conversely, the Republic of Ireland has experienced the lowest cumulative rise in inflation (+3%) of any EU-28 economy over the same period. Therefore the reality is that one of the most inflationary economies and the least inflationary economies within the EU-28 are bordering each other and competing within a single all-island market. A look at some of the hotel deals south of the border compared to Northern Ireland gives some insight into the price competitiveness this has helped bring about.

Looking at the CPI provides an indication of the cost pressures being experienced by the tourist industry's customer base (households) in Northern Ireland and also the cost base of the tourist industry itself. It is noted that UK CPI has risen by 21% since August 2007 whilst average weekly earnings have risen by less than 11%. With this ongoing squeeze on disposable incomes, this makes it difficult for consumer sensitive sectors, such as the hotel industry, to pass on price rises.

Meanwhile food prices have increased by 36% since August 2007 with gas (+76%), domestic heating oil (+84%) and electricity (+47%) posting even larger price rises. Due to market conditions, hotels have been unable to pass on all of these costs to customers. Indeed, when inflation is taken into account, the average room rate and revenue received per available hotel room in Northern Ireland has fallen by 14% in real terms between 2007 and 2012, based on figures from ASM Chartered Accountants.

RoI hotels have simply not had the inflationary pressures that their counterparts north of the border have had to endure. Startlingly, food prices in the RoI are no higher than they were six years ago which compares with +36% for the UK/NI. Meanwhile energy costs in the RoI (+29%) have risen by half the rate in the UK (+61%).

In recent weeks, the tax differential between Northern Ireland and the Republic of Ireland in relation to VAT and Air Passenger Duty (APD) has hit the headlines. The Republic's tourism and hospitality industry currently benefits from a VAT rate of just 9% which compares favourably with 20% for the UK. Meanwhile last month's Irish Budget saw the temporary VAT reduction (*from 13% to 9%*) extended beyond the end of this year. In addition, the €3 APD charge on each flight entering or exiting the RoI will be scrapped next April. Again this compares favourably with a current rate of £12 per flight in the UK / Northern Ireland.

There have been calls in some quarters for the 0% APD rate that Northern Ireland has on trans-Atlantic flights to be extended to all short-haul flights. According to the Finance Minister, a blanket 0% APD rate for all flights entering and exiting Northern Ireland would cost between £60m-£90m per annum. Such an option would prove an extremely expensive measure and would subsidise swathes of air passengers that are not 'APD price-

sensitive' and who instead primarily use Northern Ireland airports out of convenience. Whilst we would all want to see APD reduced, would we really want to pay for it if it was not a UK tax change?

Furthermore, such a measure would represent a significant investment for very little gain in terms of boosting overseas visitor numbers. Looking specifically at Belfast City Airport it is clear that planning constraints (*e.g. the cap on seat sales and size of aircraft linked to the length of the runway*) are more significant factors limiting potential tourism numbers rather than APD rates.

In reality, there are other less visible obstacles to boosting overseas tourism numbers which would potentially be much easier and cheaper to rectify than APD rates. One key example concerns visa applications, an issue that was highlighted to me recently by chief executive of Tourism Ireland Niall Gibbons.

Currently there are tens of thousands of overseas tourists arriving in the Republic of Ireland from China, India, Russia and the Middle-East each year who for visa reasons cannot come across the border to see Titanic Belfast or Giant's Causeway. Tourists from a range of countries require two separate applications and two separate payments. Therefore thousands of tourists flying into the Republic of Ireland cannot legally travel to Northern Ireland without a UK visa.

The UK and Ireland are at a competitive disadvantage with the 26 European countries that form the so called 'Schengen Area'. The latter has abolished passport and immigration controls at their common borders. As a result, a single visa applies for all members of this Schengen Area. Fortunately there is some progress being made on this front. In recent weeks the UK Chancellor has announced that Chinese tourists (using selected travel operators) planning to come to the UK will not require a separate visa if they want to travel to both the UK and the EU. This should mean that tourists arriving in Dublin from the world's second largest economy and most populous nation will soon be able to travel legally to Northern Ireland too.

So whilst profitability issues might have left Northern Ireland hotel owners saying it has been 'Our Time, Our Place' but where's our profitability, they could soon be thinking 'Viva Las Visas'!

*Richard Ramsey*  
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