



Caribbean Response to the UK Government's Consultation on Reform of Air Passenger Duty

Caribbean Tourism Organization

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1 Foreword by the Chairman of the CTO Council of Ministers

Air Passenger Duty (APD) has reduced tourism arrivals into the Caribbean from the UK and has caused a negative impact on visitor expenditure and overall economic growth.

The data is showing that the cost of visiting the Caribbean is becoming so high that some potential visitors, including our Diaspora, are deciding not to travel. It also shows that, as the proportional cost of the flight in a packaged holiday increases, our local hoteliers are often forced to lower their prices in order to save the holiday package. And where the overall package price does increase, UK holidaymakers can then only afford the cost by reducing their destination spending budget. This moves the expenditure level per tourist downwards with a resulting hurtful impact on the incomes of our craftspeople, restaurateurs, taxi drivers and numerous others in our communities whose livelihoods are tourism dependent.

Our heavily indebted Caribbean Governments understand the UK Government's need to generate revenue in a difficult fiscal climate. That is why all we ask of the UK Government at this time is for fair treatment and for due consideration to be given to reducing the level of the APD tax which is threatening the very survival of our tourism dependent economies.

We also ask that the UK Government monitors closely the emerging cost to aviation of the EU Emissions Trading System (EU ETS) and that, as UK Government revenue from EU ETS increases, the level of APD is revised downwards simultaneously. This should ensure that total aviation taxation from the UK does not put the cost of an annual family holiday, or a trip home by visiting relatives, completely out of reach of the average UK resident.

The Caribbean Tourism Organization (CTO) is pleased to see that one of the options contained in the UK Treasury's consultation document is similar to the two band approach that we proposed in November 2010. Yet, after two years of discussing the future of APD, progress has been slow, and it is frustrating to know that design change is unlikely to take place until well into 2012. Uncertainty and high taxation will hurt the Caribbean tourism industry further going forward and we appeal to the UK Government to set out as early as possible the agreed amendments and timescale for final reform of APD.

It is in the knowledge of the importance of tourism revenue to Caribbean economies, and the potential of tourism to transform the lives of our people for the better, that the public and private sectors across our region, and our Diaspora, have continued to draw attention to the unfair extra-territorial nature and negative impact of the UK's APD. It is in that same context that we hereby respectfully submit our official response to the request for input.



**Senator the Honourable Richard Skerritt
Chairman of the CTO Council of Ministers; and
Minister of Tourism & International Transport, St Kitts & Nevis**

2 Executive Summary

Caribbean Governments, the Caribbean Tourism Organization (CTO) and the Caribbean Hotel and Tourism Association (CHTA) have made clear jointly and separately at every opportunity over the past two years, their concern about the impact that the present four band Air Passenger Duty (APD) system is having on the Caribbean economy and on its Diaspora living in the United Kingdom.

At Prime Ministerial level concerns about APD have been raised with the former UK Prime Minister at the Commonwealth Heads of Government Meeting in Trinidad and Tobago in 2009 and again in 2011 in a letter to Prime Minister Cameron from the Prime Minister of Grenada, in his capacity as Chairman of the Caribbean Community (Caricom).

Representations have also been made to visiting British ministers and to the UK Parliament. Caribbean Tourism Ministers have raised their concerns directly with British Ministers at the UK Treasury, the Foreign and Commonwealth Office, the Department for Culture, Media and Sport, and the Department for Transport.

The Caribbean's case for change starts from the perspective that the UK Treasury's present four band system is discriminatory against the Caribbean and its Diaspora in the UK.

The APD banding system favours the United States, a competitor destination; is intellectually incoherent as it divides Russia into two zones but sees all of the US as one entity; and takes no account of the economic impact that the tax has on Caribbean nations that are still in transition to services-based economies that are largely tourism based.

The response that follows makes clear that:

- The present APD tax structure is discriminatory against the Caribbean and Caribbean people in the UK and any reform should rectify this;
- Out of the two reform options put forward by the UK Treasury, the two band system best addresses the Caribbean's requirement for equal treatment of all long haul destinations;
- Applying the lowest suggested rate under a two band system would begin to address concerns about the quantum of the tax;
- The second banding option for a three band system proposed by the UK Treasury does not address any of the concerns of the Caribbean;
- If the EU Emissions Trading System will cover the CO² impact of aviation, then there is no basis for differentiation of APD rates based on distance flown;
- Premium Economy should be reclassified at the reduced rate with the standard rate adjusted to make any such change revenue neutral;

- The impact of changes to regional APD and the devolution of APD in Scotland is difficult to quantify and careful consideration should be given to any proposed changes in order to avoid unintended market distortions;
- The Caribbean tourism industry needs certainty going forward and would like the UK Government to set out as early as possible what changes are to be made to the structure of the existing system, the timescale for the implementation of such changes and the parameters for any future movement in the rates charged;
- The Caribbean is very concerned about the suggestion that APD will be increased annually by the rate of inflation and wants to know if APD rates will be capped to ensure that the cost of flying does not go beyond the reach of the average British household;
- APD is considered by regional and international institutions to be having a negative effect on the Caribbean economy;
- Taxes on tourism are extra-territorial in effect and their impact on development should be fully considered;
- The Caribbean supports the development of a multilateral, global approach to aviation emissions but believes that policies on the taxation of aviation should not be developed unilaterally.

3 The Caribbean Tourism Organization

The Caribbean Tourism Organization (CTO) comprises 33 member countries in the English, French, Spanish and Dutch speaking Caribbean. It is headquartered in Barbados. It has on its Council the Ministers of Tourism of each of the countries that it represents and it has representatives from the private sector and allied industries on its Board. The current Chairman of the Council of Ministers is the Minister of Tourism & International Transport for St. Kitts and Nevis.

The CTO's role is to help establish tourism as a sustainable means of social and economic development for the Caribbean and to safeguard the industry's interests in the region and internationally.

The CTO is responding on behalf of its member governments but wishes to note that this response is supported in its entirety by its private sector partners in the industry including the Caribbean Hotel and Tourism Association (CHTA), airlines and tour operators.

4 Consultation on Air Passenger Duty

The Caribbean welcomes the opportunity to respond to the UK Treasury's consultation on Air Passenger Duty.

4.1 Consultation Option 1: Two Band System

Having proposed a two band system as an alternative to the existing four band system in November 2010, the Caribbean is pleased to see that this option is being considered by the UK Government.

In noting this, the Caribbean wishes to state that there is no viable alternative way of reaching the Caribbean other than by air. 'Modal shift' to other forms of transport to the Caribbean is not possible.

The Caribbean believes that a two band system is better than the existing four band system because it addresses the unfairness and discrimination of the current system in its treatment of long haul destinations. A two band system affords equal treatment to all long haul destinations.

The current APD system places the Caribbean at a competitive disadvantage to holiday destinations in the USA because they were placed in different bands. South Florida and the Florida Keys – undeniably competitor holiday destinations to the Caribbean – as a part of the USA are in a lower tax band than the Caribbean, even though the Florida Keys are, for example, around 250 miles further away than Bridgetown, Barbados and approximately 380 miles further away than St John's, Antigua and Barbuda.

The Caribbean remains extremely concerned about the negative economic and social impact that the high level of Air Passenger Duty is having as a result of falling visitor arrivals from the UK and the longer term effect that year on year increases may have.

Furthermore, given that the UK Government believes that the CO² impact of aviation will be covered by aviation's inclusion in the EU Emissions Trading System (EU ETS) from 2012, the Caribbean believes that the significant margin of difference between the short haul and long haul rates is unjustified.

Should Option One be selected as a replacement for the existing band system, the Caribbean would expect to see the lowest suggested rates under option one (£65/£130) applied to Band B. In recognising the need for any alternative to be revenue neutral, the Caribbean notes that this would require the Band A rate to be set at the higher rates of £16 and £32. This would still mean that the Band B rate was over 300% higher than the Band A rate, which is unfairly disproportionate given the fact that EU ETS will account for CO² emissions from 2012.

Beyond this, the Caribbean is very concerned by the UK Government's announcement that Air Passenger Duty is to increase annually in line with UK Retail Price Index (RPI) inflation rates. This means that the overall cost of APD should an annual inflationary increase of 3.5%

be added, would increase by between 16% and 18% from 2012 to 2016 using 2012 base rates¹ of between £65 and £83². Using a base rate of £83 in 2012, a 3.5% increase year on year would mean that by 2016 the economy rate of APD to the Caribbean would be £97. To the Caribbean, such arbitrary annual increases present a very real threat to the sustainability of the industry given that consumers are extremely price sensitive.

The Caribbean believes that aviation taxation could soon become counterproductive.

There is great uncertainty about what EU ETS will mean to the cost of a ticket, though estimates range from an additional €5 to €40 on a return long haul ticket. It is important that the annual increase to the rate of APD and the projected cost to travellers of EU ETS are considered together when setting rates under any revised APD system. Otherwise, it is clear that the sum of APD and EU ETS will soon exceed £100 per person at minimum on flights to the Caribbean. When considered alongside ever increasing fuel costs and declining disposable income in middle income households, this trend is extremely worrying and a very real threat to the sustainability of the travel and tourism industry and the Caribbean.

Furthermore, the Caribbean believes that the UK travel and tourism industry will be significantly impacted by any drop off in demand as a result of annual increases in aviation taxation and that as a result, the income from aviation taxation might fall short of expectations.

4.2 Consultation Option 2: Three Band System

This option does not address the Caribbean's requirement for a fair system that treats it equally with its competitors as it perpetuates the discriminatory aspect of the current system. Unless the distances were amended to address the discriminatory aspect of the bands, this option would not be in the Caribbean's interests.

Moreover, this option does not offer the simplicity provided by a two band system, and given that the UK Government has acknowledged that aviation's CO² emissions will be accounted for under the EU ETS from 2012, there is no justification for continuing to differentiate between long haul destinations.

A three band option does not allow for the same kind of reduction in rate that would be applied to the Caribbean under a reversion to a two band system. For this reason the second UK Treasury option does not provide enough flexibility to address the Caribbean's concerns about the impact of the current rate of APD on its tourism economies. It is highly probable that the negative impact of APD as described in the Caribbean Tourism Organization's November 2010 report submitted to the UK Treasury and other British Government Departments, would continue under this option.

4.3 Other options

In reviewing the UK Treasury's consultation document the Caribbean has considered whether alternative systems were possible beyond the two that have been suggested.

¹ £65 is the lowest rate suggested in the consultation that might be applied to the Caribbean. £83 is the highest.

² This assumes a 3.5% increase is applied year on year, with all figures rounded up to the nearest whole pound.

One option the region has considered has been the elimination of the distance bands. In light of the UK Government's announcement that EU ETS will cover the environmental aspects of APD, the option of a flat rate is more intellectually robust as there is no argument for differentiating between destinations on account of distance. However, in recognising the UK Treasury's desire for a revenue neutral solution and the UK industry's need to retain its competitiveness at a European level, the Caribbean has chosen not to put this option forward.

4.4 Timescale

Uncertainty about the future of the revised APD system since November 2009 has not been helpful to the public and private sector involved in Caribbean tourism.

The Caribbean believes that APD is having a negative impact on its tourism economy and therefore would like the UK government in responding to the APD consultation to establish a clear timetable on implementation in order to allow the region to plan for the growth of tourism on a predictable basis. The Caribbean would therefore like the UK Government to set out as early as possible what changes are to be made to the structure of the existing system, the timescale for implementation of those changes and its future parameters for any movement in the rates charged.

In particular, uncertainty over the cost of APD has a significant impact on the ability of Caribbean hoteliers and UK tour operators and airlines serving the region to set prices in advance.

4.5 Class Distinction

Airlines and others involved in the travel and tourism industry suggest that the current APD class distinction that brings premium economy, business/club and first class together at a higher rate, threatens the future existence of premium economy travel to the Caribbean.

This class of travel is popular with visitors to the Caribbean and with parts of the Visiting Friends and Relatives (VFR) market, as many travellers choose to upgrade their class of travel for their annual holiday or visit. For example, in the VFR market this class of travel is popular with older members of the Caribbean Diaspora who require a little more room and less noise. For holidaymakers, this class of travel is very popular with aspirational travellers seeking a little more comfort for their annual holiday.

The difference in the cost of APD in economy and premium economy class means that in addition to the cost of the ticket upgrade, a family of four will pay an extra £300 in tax to upgrade from economy to premium economy for relatively minor improvements in seating and service.

When the higher rate of tax is applied to this cabin, the cost of the tax in addition to the cost of an upgrade to premium economy means that passengers who have previously been willing to pay for the additional comfort in this class of travel will no longer choose to do so.

Tour operator TUI Travel has already indicated that if premium economy classes continue to be included in the higher rate band that it will abandon plans to have a premium economy cabin in its new 787 Dreamliners.

This suggests that APD is making premium economy seating a less affordable option to its traditional customer base and that a drop off in demand will make this category of travel commercially unviable. This is likely to lead to less choice for the consumer, a fall in comfort and the desirability of travel to the Caribbean for a particular market segment and a decline in revenue for the UK Treasury.

The Caribbean recognises, however, the UK Government's requirement that any amendments to the current APD system should result in a simpler, fairer structure and one that is revenue neutral.

The CTO does not have access to airlines' commercial data about the number of premium economy passengers to the Caribbean and the APD that this class of travel generates. However, it wishes to state that it believes that the only simple and revenue neutral way to address this issue would be to reclassify premium economy to the reduced rate and to compensate for this by increasing the cost of the standard rate on business/club and first class.

4.6 Devolved APD Responsibility and Differentiated Rates for UK Regional Airports

The consequences of both of these proposed options are hard to quantify from a Caribbean perspective. Such changes to the system would undoubtedly make the system more complex and difficult for the consumer to understand.

Gatwick and Heathrow are important airports for Caribbean airlift and the Caribbean would not like to see any changes that negatively impact upon the ability of those airports to serve as hubs for Caribbean destinations. However, the Caribbean also recognises the important role that regional airports play in providing for customers travelling to the Caribbean.

Devolving responsibility for APD and allowing for different rates at regional airports could lead to market distortions that may impact upon the provision of services to the Caribbean if regional airports in England and airports in Scotland were able to charge different rates of APD. This could result in increased use of continental hubs such as Amsterdam, Brussels, Frankfurt and Paris for passengers originating in the regions of England outside of the South East and for passengers originating in Scotland.

5 Other Relevant Issues

In responding to the UK Treasury's consultation document the Caribbean wishes to set out some of the background to why the issue of Air passenger Duty has become such a contentious one for the region in its relations with the United Kingdom Government.

5.1 The Value of Tourism to the Caribbean

Gross Domestic Product³

In the countries that receive significant numbers of UK visitors, tourism accounts for a higher proportion of GDP than those that do not. For example, according to research produced by Oxford Economics it was estimated that tourism in Barbados accounted for 47.9% of GDP in 2010; 37.8% in St Lucia; and 78.4% in Antigua & Barbuda.

More generally across the region, taking into account nations that are less tourism dependent (e.g. Trinidad and Tobago and Guyana) or in larger nations that have more broad based economies (e.g. Dominican Republic and Cuba), Oxford Economics estimated that direct travel and tourism revenue would account for 3.7% of regional GDP in 2010 and the broader travel and tourism economy would account for 12.4% of regional GDP. This latter figure includes both indirect and direct revenue along with the impact of investment, government collective consumption and merchandise exports related to the tourism industry⁴.

Employment⁵

The significance of travel and tourism to GDP is reflected in the region's employment figures, with 1.9 million people across the region in jobs related to travel and tourism. This translates to 1 in every 9 jobs.

The figures show that in Antigua & Barbuda 8 out of 10 jobs are related to tourism, just over half in Barbados, with one quarter of all employment in Jamaica, St Vincent & the Grenadines and Grenada resulting from tourism.

Investment⁶

In 2008, investment in the Caribbean travel and tourism industry was US\$11.441bn or 22.9% of total investment in the region. In 2009 investment totalled US\$10.439bn, though that year was recognised as a weak year for foreign direct investment due to the world economic climate. In 2010 it was estimated to be US\$10.221bn, just over 20% of total investment in the region. Broken down, the importance of investment by country includes Barbados 47.9%

³ Data on GDP in the Caribbean is taken from a report prepared for the World Travel & Tourism Council and the Caribbean Hotel and Tourism Association. "Travel and Tourism's Economic Impact Across the Caribbean", Oxford Economics, May 2010.

⁴ The Oxford Economics study covered the following countries: Anguilla, Antigua & Barbuda, Aruba, The Bahamas, Barbados, Bermuda, Cayman Islands, Cuba, Dominica, Dominican Republic, Grenada, Guadeloupe, Haiti, Jamaica, Martinique, Netherlands Antilles, Puerto Rico, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Trinidad & Tobago, British Virgin Islands, US Virgin Islands.

⁵ "Travel and Tourism's Economic Impact Across the Caribbean", Oxford Economics, May 2010.

⁶ "Travel and Tourism's Economic Impact Across the Caribbean", Oxford Economics, May 2010.

of total investment, St Lucia 37.5%, Antigua & Barbuda 48.9%. The highest and lowest levels are 71.1% in Aruba to 5.1% in Haiti.

5.2 The Value of the UK Market to Caribbean Tourism

According to available statistics, the Caribbean countries most dependent on UK visitor arrivals are as follows:

	Total Stop Over Arrivals 2008 (CTO Data)	Stop Over Arrivals from UK Market 2008 (CTO Data)		Travel & Tourism Total Contribution % GDP 2008 (WTTC Figures)	World Bank Total GDP 2008 (\$US Current)	Estimated Contribution of UK Stop Over Arrivals 2008 (\$US Current)	Estimated GDP Value of a 5% Reduction in UK Arrivals (US\$ Current)
		Total Number	% Total Arrivals				
Barbados	567,700	219,953	38.7	47.9	3,681,500,000	683,236,900	34,161,845
Antigua & Barbuda	265,800	89,514	33.7	72.4	1,203,314,815	293,395,749	14,669,787
Grenada	130,400	34,821	26.7	24.7	678,488,877	44,751,061	2,237,553
Saint Lucia	295,800	83,693	28.3	47.9	986,074,074	133,639,862	6,681,993
Saint Vincent & the Grenadines	84,100	15,442	18.4	26.9	581,722,222	28,732,637	1,436,632
Jamaica	1,767,300	188,436	10.7	24.3	14,614,273,088	378,649,242	18,932,462
Dominica	78,481	7,207	9.2	26.1	374,422,222	8,974,125	448,706

Using World Travel and Tourism Council (WTTC) figures for the contribution of travel and tourism to GDP, World Bank figures for total GDP, and CTO statistics for the UK market as a percentage of total arrivals, the above table attempts to estimate the contribution that the UK market might make to GDP in selected Caribbean countries.

Using 2008 figures, the table further estimates what impact a decline in stop over arrivals from the UK to the Caribbean might have on GDP. In the case of Barbados, the figures suggest that a 5% decline in arrivals would equate to almost 1% of total GDP and in the case of Antigua and Barbuda a 5% decline in UK arrivals could mean a reduction in GDP in the region of 1.2%. UK Office for National Statistics data suggests that UK visits to the Caribbean in the first nine months of 2010 registered an average decline of 16.4 per cent compared to the same period in 2009. In the case of Barbados the ONS figures record a decline of 22.2% over the same period. Using the estimated figures in the above table, this suggests that a 20% decline in arrivals to Barbados could equate to around 4% of GDP or US\$136,647,380.

5.3 The Impact of Price Increases on Demand

In a World Economic Forum study of Travel and Tourism Competitiveness⁷, it states “All of the studies reviewed, spanning a period of over 25 years, found that there was a significant demand response to changes in airfares. The consistency of this result strongly indicates that any policy action that results in higher fares (e.g. passenger taxes, increased landing fees) will result in a decline of tourist numbers.”

⁷ The Travel & Tourism Competitiveness Report 2008, The World Economic Forum, p85

A British Social Attitudes report⁸ on changing attitudes to air travel found:
“a range of estimates suggest that a 10 per cent change in fares would affect demand for flights by around 5 to 15 per cent (Cairns and Newson, 2006)”

The implication of this is that an increase in cost is likely to have an impact on overall demand. Furthermore, it implies that where cost is a factor in choice of destination, the Caribbean countries have been placed at a competitive disadvantage to destinations of a similar distance, or in the case of west coast USA and Hawaii, ones that are significantly further away.

Evidence of this is already emerging from 2010 arrivals figures.

The Caribbean Tourism Organization’s own research conducted in May and June 2009 and in March and April 2010 to determine the response of UK visitors to changes in the price levels of air tickets, indicated the clear likelihood of a falloff in demand as the price of air tickets rises for whatever reason.

CTO’s first survey was conducted during May and June 2009 when 1703 visitors were interviewed with a follow-up in March and April 2010 when 1431 were interviewed.

The 2009 survey observed that when air fares rose beyond £500 the interest of the UK visitor in travel to the Caribbean declined very rapidly for those using economy class, which accounted for 75 per cent of the total respondents. The second survey which was undertaken in winter 2010 showed much the same pattern. 71 per cent of economy class visitors indicated they would quickly lose interest in travel to the Caribbean should air fares rise above £550. CTO concluded that the findings indicated: a high level of price sensitivity to air fare changes for the typical British visitor; lower air fares were associated with multiple visits within the same year; and the extent to which extra costs such as aviation taxation added to air tickets will impact negatively on a visitor’s propensity to travel.

5.4 The Impact of APD on UK Arrivals to the Caribbean Market

Caribbean Governments have been the first to recognise that it is not easy to disaggregate figures relating to APD, given the current global financial climate and that there are a number of economic factors at play including:

- The world economic downturn
- Variable performance by Caribbean tourism destinations
- The fact that hotels in some countries are discounting rates to an extent that others are not
- The fact that some countries are spending considerable additional funds on marketing in the UK

However, available data suggests that APD is having a negative impact on the Caribbean.

⁸ Pay more, fly less? Changing attitudes to air travel, Chapter 6 of British Social Attitudes 2008-2009, p131, Sage Publications

UK Civil Aviation Authority

A comparison of the UK Civil Aviation Authority⁹ figures for Quarters 1 and 2 (Q1, Q2) 2009 and Q1 and Q2 2010 shows that UK passenger numbers to the USA declined by 6.5% and passenger numbers to the Caribbean declined by 11.8%.

Looking at passenger traffic to countries across the four bands, bands A and B registered positive growth averages of around +8.84% in band A and +1.83% in band B, while bands C and D registered declines of -7.98% and -4.66% respectively.

The fact that destinations in groups C and D have suffered declines suggests that this may be a result of increased fares due to APD increases on 1 November 2009.

Industry experts believe that the full impact of the APD increases on the Caribbean markets will not be felt until 6-12 months after the 1 November 2010 increase. Their sense is that this means that the damage to the Caribbean economy will intensify. While a full impact study would be required to understand the impact of APD and other revenue measures designed to address environmental concerns on developing nations, the Caribbean believes that to wait for further evidence before addressing the impact of APD would be devastating for the region's tourism industry.

UK Office for National Statistics

UK Office of National Statistics (ONS) figures for the first three quarters of 2010 indicate decreases in all visits abroad by UK residents by air of 6.8%.

Visits to the Caribbean show reductions of 16.4% for the same period. Figures for Barbados show a 2010 decline of 22.2% when compared with the same period in 2009.

Caribbean Tourism Organization Statistics

A comparison of CTO stop over arrivals figures for 2008-2010 reveals an average decline of 18.7% from the UK market compared to an average decline of 6.5% in total stop over arrivals. This confirms that the declines in the UK market have been much greater than those from other key source markets.

COUNTRY	TOTAL ARRIVALS			UK MARKET			UK % SHARE			% CH 2010/08	
	2008	2009	2010	2008	2009	2010	2008	2009	2010	TOTAL	UK
Barbados	567,700	518,600	532,200	219,953	190,632	181,054	38.7	36.8	34	-6.3	-17.7
Antigua & Barbuda	265,800	234,400	231,300	89,514	73,251	66,747	33.7	31.3	28.9	-13.0	-25.4
Grenada	130,400	113,400	106,200	34,821	27,512	25,791	26.7	24.3	24.3	-18.6	-25.9
Saint Lucia	295,800	278,500	305,900	83,693	71,853	67,417	28.3	25.8	22	3.4	-19.4
Saint Vincent & the Grenadines	84,100	75,400	72,500	15,442	13,347	12,136	18.4	17.7	16.7	-13.8	-21.4
Jamaica	1,767,300	1,831,100	1,921,700	188,436	184,512	184,355	10.7	10.1	9.59	8.7	-2.2

⁹ CAA International Passenger Traffic to and from UK Reporting Airports (in Thousands) by Country 1999 – 2010

International Monetary Fund (IMF)

The IMF Regional Economic Outlook for the Western Hemisphere¹⁰ suggests that Jamaica and Cuba have not seen the same level of decline in arrivals because of heavy discounting in the hotel sector. IMF figures do not disaggregate UK arrivals from the rest of the world; however this would suggest a reason for the smaller decrease in arrivals to Jamaica and Cuba. Heavy discounting by hotels is likely to result in lower hotel yields, which will have a negative impact on tourism receipts. Such activity suggests that as the UK increases APD rates to the Caribbean, tourism receipts are likely to continue to fall.

Eastern Caribbean Central Bank

Eastern Caribbean Central Bank (ECCB) figures for the first three quarters of 2010 show that stop over visitors for the group of eight countries¹¹ in the Eastern Caribbean Currency Union (ECCU) were as follows:

	Jan-Sept 2009	Jan-Sept 2010	% Change
Stop over visitors	707,724	749,557	6
of which:			
USA	260,026	301,477	16
Canada	49,674	59,472	20
UK	150,049	140,318	-6
Caribbean	176,973	169,679	-4
Other Countries	71,002	78,611	11

This conclusively demonstrates that the UK is the only source market outside of the Caribbean regional market that has registered a decline in visitors to the reporting Eastern Caribbean countries in the first nine months of 2010.

The 'other countries' category includes western European countries such as Germany, France, Italy and Spain. The fact that non Caribbean stop over visitors have increased by an average of 15.7% while the UK market has seen a decline of 6% suggests that increases in the cost of flights as a result of Air Passenger Duty is having an impact on the UK market.

5.5 The Impact on Price Competitiveness

A key Caribbean concern about the introduction of the four tier APD banding system on 1 November 2009 was that the system placed the Caribbean at a competitive disadvantage to holiday destinations in the USA because they were placed in different bands.

In its 2009 annual report "Highlights of Caribbean Development Bank's activities in 2009 and economic background and prospects", the Caribbean Development Bank¹² (CDB) highlighted the importance of tourism and construction to the recovery of the regional economies. In reviewing the prospects for recovery, the CDB stated "a key concern remains however, in ... Air Passenger Duty introduced by the UK, which will further reduce the Region's price

¹⁰ Regional Economic Outlook, Western Hemisphere, IMF October 2010, p34

¹¹ Countries covered by the above figures are: Anguilla; Antigua & Barbuda; Dominica; Grenada; Montserrat; St Kitts & Nevis; St Lucia; St Vincent & the Grenadines

¹² The United Kingdom is a donor country and member of the Caribbean Development Bank.

competitiveness.” In its 2010 report, the CDB cites APD amongst the contributing factors to “significant fall-offs in arrivals from Europe”.

A recent report on long haul travel by the UK tour operator Hayes and Jarvis states that bookings for their Caribbean holidays have seen an increase in 2011 but that this is only as a result of heavy discounting by Caribbean hotels. This highlights the price sensitivity of UK holidaymakers and suggests that hoteliers are required to subsidise the additional cost of APD by offering greater discounts. Pressure on hotels to offer significant discounts is demonstrated by Caribbean Hotel and Tourism Association statistics for average daily rates and revenue per available room, both of which have registered respective declines of 13% and 16.3% in 2011 compared to 2008 figures.

5.6 The Impact on Government Spending

CTO members have reported that in an attempt to face the challenge of declining arrivals from the UK, Caribbean Governments have been required to increase their marketing budget for the UK, often diverting funding from other areas. For example, in September 2010, the Minister of Finance for Barbados, Christopher Sinckler, announced that he was increasing the marketing budget directed at the British market by US\$3 million. This was in addition to the US\$5 million already allocated in the budget for marketing activity in the UK. In making this announcement, the Minister noted that “The UK remains Barbados’ most important source market for tourists”. St Lucia made a similar announcement.

If Caribbean Governments are forced to divert resources away from other essential services in order to try and maintain rather than grow tourism, this will have a negative social and economic impact upon the region.

5.7 The Impact on Choice of Destination

Annual traffic data to the end of September 2010 for eight popular Caribbean destinations on Cheapflights.co.uk shows an average annual 11.6% drop in Caribbean destination searches compared to the previous year.

Country	2008-2009	2009-2010	Variance Year on Year (%)
Antigua & Barbuda	35440	31642	-10.7
Bahamas	19738	23327	18.2
Barbados	180550	138904	-23.1
Cayman Islands	11929	17108	43.4
Grenada	24521	24928	1.7
Jamaica	296305	256211	-13.5
St Lucia	32401	37175	14.7
BVI	5462	6788	24.3
Total Sample	606346	536083	-11.6

As a travel search engine rather than a supplier, cheapflights can only report on searches and not bookings, however the fact that fewer people are searching for Caribbean

destinations could point to APD impacting upon perceptions of costs of visiting certain destinations.¹³

5.8 The Impact on the Caribbean Diaspora

The UK Office of National Statistics (ONS) Travel Trends Survey estimates that in 2009 there were 122,000 Visiting Friends and Relatives (VFR) visits from the UK to the Caribbean, staying a total of over 3 million nights and spending £77million.

A report on the Caribbean Population in the UK produced by the Caribbean Council for ECIC Holdings Ltd¹⁴ estimated that the Caribbean Diaspora population in the UK was approximately 800,000. Therefore, the number of visits identified in the ONS Travel Trends 2009 is equivalent to one visit each for 15% of the Caribbean community in the UK.

One VFR specialist travel agent in the UK has indicated that forward bookings are down by as much as 20%. This figure is in line with ONS statistics for overall arrivals for the first three quarters of 2010. If this figure is correct, the value of lost VFR business using ONS 2009 statistics on average spend would be approximately £15.4million.

In public events around the UK organised by the Jamaica National Building Society in early 2010, the increased cost of travel in the current economic climate was a primary reason given by the Caribbean Diaspora in the UK for reducing the number of visits it makes.

The Caribbean Diaspora in the UK has consistently demonstrated its anger over the discriminatory aspect of Air Passenger Duty and the fact that the high level of the tax is reducing their ability to afford essential travel. In addition to other issues relating to UK Caribbean relationships, the Caribbean Diaspora feels that the UK government is turning its back on the UK Caribbean relationship.

5.9 The Social, Cultural and Economic Benefits of Tourism

The Caribbean welcomes the UK Government's acknowledgement in its *Plan for Growth* of the social, cultural and economic benefits that tourism is able to deliver.

The Caribbean was encouraged by the UK government to move away from its preferential trade agreements and traditional agricultural markets of bananas and sugar and to look to services, and in particular tourism, to grow the regional economy. The Caribbean has successfully developed its tourism industry to the extent that tourism is now a primary contributor to GDP and government income across the region.

As a result, the Caribbean is acutely aware of the social, cultural and economic benefits that tourism delivers and this is why the Caribbean takes the threat of Air Passenger Duty so seriously. Continuing decline in tourism arrivals will touch the lives of every Caribbean national.

¹³ Data from Cheapflights Media.

¹⁴ ECIC Holdings Ltd is a group of Eastern Caribbean banks

5.10 The Millennium Development Goals

If tourism receipts fall in the Caribbean, this will have a significant impact on the revenue of Caribbean governments. This could cause a reduction in key services such as education and healthcare, and will impact upon Caribbean governments' ability to implement additional programmes such as those that contribute towards achieving the Millennium Development Goals which are fully supported by the United Kingdom and other G20 nations.

5.11 The Importance of Climate Change

The Caribbean is a low carbon emitting region and one that is most at threat from the impact of climate change. As such, the Caribbean recognises that all countries have a duty to be environmentally responsible.

The CTO supports the development of a multilateral, global approach to aviation emissions but believes that such policies should not be developed unilaterally. It wants a fair, global system to be developed rapidly that places all airlines and countries on a level playing field. Without this, tourism dependent regions such as the Caribbean that as a result of changing European policy have had to migrate from preferential agricultural arrangements to an industry that is based on its environment, tourism, will be unfairly discriminated against.

The UK Government has stated that it sees APD primarily as a revenue raising measure rather than an environmental tool, with CO² emissions being covered by the EU Emissions Trading System (EU ETS) from 2012.

APD is therefore a tax on people taking holidays, visiting friends and relatives or making business trips rather than a tax on emissions. As a result, the Caribbean does not believe that APD should continue to be classified as a green tax as this misleads consumers about the intention of the tax.

While there is uncertainty about what the level of increase in ticket costs will be as a result of the EU ETS, it is certain that it will be an additional cost that consumers will have to bear. Therefore, the Caribbean believes that the UK Government should consider the combined level of Air Passenger Duty and the cost of EU ETS together when evaluating the impact of aviation taxes levied by the UK on Caribbean tourism exports.

5.12 A Tax on Exports

The World Bank World Development Indicators classify tourism as an export.

The Caribbean would like to refer the UK Government to principle twelve of the Rio Declaration on Environment and Development 1992:

“States should cooperate to promote a supportive and open international economic system that would lead to economic growth and sustainable development in all countries, to better address the problems of environmental degradation. Trade policy measures for environmental purposes should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.

Unilateral actions to deal with environmental challenges outside the jurisdiction of the importing country should be avoided. Environmental measures addressing transboundary or global environmental problems should, as far as possible, be based on an international consensus.”

Some experts believe that APD may contravene the spirit of the EU-Cariforum Economic Partnership Agreement or the World Trade Organization General Agreement on Trade in Services. Any restraint on trade is taken seriously and such advice will be reviewed once the outcome of the UK consultation on reform of Air Passenger Duty becomes clear.