



House of Commons
Welsh Affairs Committee

Devolution of Air Passenger Duty to Wales

Fifth Report of Session 2017–19

*Report, together with formal minutes
relating to the report*

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Welsh Affairs Committee

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Summary

For several years the Welsh Government has been calling for the devolution of Air Passenger Duty (APD) to Wales, but the UK Government has resisted the change. We therefore decided to launch this inquiry to consider the arguments for and against the devolution of APD to Wales. This report will outline what these main arguments were:

Arguments for:

- Recommendations made by two respected commissions, the Silk Commission and the Holtham Commission, suggested that APD should be devolved to Wales.
- APD is being devolved to Scotland and has been partially devolved to Northern Ireland, making Wales the only devolved administration with no power over any aspect of APD.
- The devolution of APD, and subsequent reduction or abolition of the duty, could unlock the potential of Cardiff Airport to attract new airlines and increase passenger numbers to Wales.
- Cardiff Airport could potentially complement busier airports in England, some of which have plans for expansion because they are nearly at capacity.
- A reduction in APD could boost the Welsh brand and promote economic growth across the whole of Wales.

Arguments against:

- Devolution of APD could take business away from English airports serving Wales.
- Those living in South Wales could see more benefits than those living in Mid and North Wales as it is Cardiff Airport that will be primarily affected.
- Cardiff Airport already has a competitive advantage because it is under the ownership of the Welsh Government.
- The aviation industry is relatively under-taxed as airline fuel is not subject to tax and airline tickets are not subject to VAT, domestically or internationally.
- If APD were devolved to Wales, and subsequently abolished or reduced, there would be an increase in air traffic which in turn could increase carbon emissions and cause damage to the environment.
- Wales would see a reduction in the amount of funding it receives from the UK Government through the block grant.

After carefully considering all these arguments, we have come to the view that APD should be devolved to Wales and we call on the UK Government to set out plans to do so by 2021. Should APD be devolved to Wales, we have not taken a view on whether APD should be abolished or reduced, as we believe that this a decision for the Welsh Government. However, we do call on the Welsh Government to carry out the necessary environmental impact assessments, before any decision is made on how to use the tax.

Introduction

1. Air Passenger Duty (APD) is a tax levied by the UK Government on passenger flights from UK airports, which came into effect on 1 November 1994, after being announced as a new levy at the November 1993 Budget.¹ The then Chancellor of the Exchequer, Rt Hon Kenneth Clarke MP, introduced the tax stating:

[...] Air travel is under-taxed compared to other sectors of the economy. It benefits not only from a zero rate of VAT; in addition, the fuel used in international air travel, and nearly all domestic flights, is entirely free of tax. A number of countries have already addressed this anomaly. I propose to levy a small duty on all air passengers from the United Kingdom airports.²

2. APD is charged on a per-passenger basis from UK airports to domestic and international destinations and is payable by the operator of the flight. The rate of the duty varies according to passenger destination and class of travel and is usually passed onto the passenger in their ticket price.³

3. In Wales APD is not devolved, with rates currently set by the UK Government. This is despite “repeated calls” from the Welsh Government to the UK Government for devolution of the tax.⁴ In Northern Ireland, APD was devolved to the Northern Ireland Assembly for long-haul flights only, in 2012.⁵ The Scotland Act 2016 made provision for the full devolution of APD to Scotland, but issues concerning the Highlands and Islands airports have led to a delay in its implementation.⁶

4. APD currently raises around £3.4 billion a year for the UK Exchequer and was described by the Exchequer Secretary to the Treasury, Robert Jenrick MP, as “a significant revenue raiser”.⁷ HMRC estimates that Wales currently contributes £6 million in APD to the Exchequer - 0.2% of total UK APD⁸ - which Mr Jenrick acknowledged was a “small sum”.⁹

5. The Welsh Government receives an annual block grant from the UK Government, changes to which are primarily determined by the Barnett Formula.¹⁰ This block grant can be used to support spending by the Welsh Government on any devolved function, although the Treasury sets restrictions on how much can be spent on day to day (“resource”) costs, and how much on capital spending-investment in assets.¹¹ In its written evidence, the

1 *Air Passenger Duty: introduction*, [Number 413](#), House of Commons Library, February 2019.

2 HC Deb, 30 November 1993, [col 934](#) [Commons Chamber].

3 *Air Passenger Duty: introduction*, [Number 413](#), House of Commons Library, February 2019.

4 “*The UK government must urgently change its position on devolving air passenger duty to Wales*”, [Welsh Government press release](#), 7 March 2019.

5 HC Deb, 21 February 2012, [vol 540](#) [Commons written ministerial statement].

6 The Scottish Government had planned initially to reduce APD by 50% and “abolish it when resources allow”. However, plans to continue exempting journeys from airports in the Highlands and Islands require EU approval under state aid rules. This approval was expected to take some time, so the devolution of APD has been “deferred beyond 2020”. The Scottish Government have since said that it will not abolish or reduce the tax once it is devolved because of a change in environmental policy. (Scottish Government, [Taxes: Air Departure Tax](#), accessed May 2019).

7 [Q180](#).

8 HM Revenue and Customs, [A disaggregation of HMRC tax receipts between England, Wales, Scotland and Northern Ireland](#), (October 2018), p53.

9 [Q181](#).

10 The Barnett formula, [Number 7386](#), House of Commons Library, January 2018.

11 Law Wales, [‘How is devolved government in Wales financed?’](#), accessed 2 May 2019.

Welsh Government states that if APD were devolved to Wales, then its “funding would be correspondingly reduced through a block grant adjustment”.¹² It states that “this is likely to be initially equivalent to the amount of APD revenue generated in Wales”, suggesting that if APD were to be devolved to Wales, there would be a reduction in the block grant of £6 million,¹³ with potential adjustments for inflation in future years.¹⁴

6. The 2008 Independent Commission on Funding and Finance for Wales (The Holtham Commission) recommended the fixed real deduction (FRD) model as the best model for APD, and other small taxes, to be integrated into the Welsh budget, should they be devolved.¹⁵ The report explained the FRD model:

The grant is reduced by an agreed sum which is then indexed to inflation; i.e. the present value of tax receipts is equated to a real annuity which is deducted from the grant.¹⁶

7. However, the Welsh Fiscal Framework, agreed between the UK and Welsh Governments in December 2016, decided that the best method for uprating the amount of deduction to the block grant for those other taxes that have since been devolved to Wales, would be through the “comparable model”.¹⁷ This model takes account not only of the change in UK tax receipts, year on year, and the share of the population of Wales, but also adjusts to reflect the fact that generally Wales receives less per head for a given tax than the rest of the UK.¹⁸

8. Were APD to be devolved, the respective governments would need to agree whether to apply the same arrangements (the comparable model) for uprating block grant adjustments for APD, as for existing devolved taxes, or whether another model (such as the fixed real deduction model) might be more appropriate. This would need to be set out in a revised version of the Welsh Fiscal Framework.

9. In a letter to the Chairman of Cardiff Airport in 2016, the then First Minister of Wales, Rt Hon Carwyn Jones AM, argued that APD should be devolved to Wales because it continued to place what he saw as unjustifiable constraints on Wales’s ability to promote itself abroad and hindered growth in its aviation sector and wider economy.¹⁹ Mr Jones also argued that the UK Government’s “blank refusal to devolve APD to Wales” when it had done so in Northern Ireland and Scotland “shows a discriminatory disdain for the interests of Wales”.²⁰

10. The Welsh Government has stated previously that if APD were devolved to Wales it would either be reduced or abolished completely.²¹ However, when taking oral evidence from Rebecca Evans AM, Minister for Finance and Trefnydd, we sensed that the Welsh

12 Welsh Government ([APD0004](#)) para 16.

13 As above.

14 [Q8](#).

15 Independent Commission on Funding and Finances for Wales, [Fairness and accountability: a new funding settlement for Wales](#), (July 2010), p49.

16 As above.

17 HM Treasury, [The agreement between the Welsh Government and the UK Government on the Welsh government’s fiscal framework](#), December 2016.

18 HM Treasury, [The agreement between the Welsh Government and the UK Government on the Welsh government’s fiscal framework](#), December 2016.

19 Cardiff Airport ([APD0008](#)).

20 As above.

21 Welsh Government ([APD0004](#)).

Government’s position on the abolition or reduction in APD had subtly changed. When asked to confirm whether the Welsh Government would reduce APD if it were devolved to Wales, Ms Evans stated that there would need to be “environmental impact assessments and so on” before the Welsh Government could confirm whether the duty would be abolished or reduced. She explained that a consultation would need to take place before the Welsh Government could decide on how they “use that power”.²²

11. Furthermore, in February 2019 the current First Minister, Rt Hon Mark Drakeford AM, in a letter to Roger Lewis of Cardiff Airport, stated that although the Welsh Government’s position on APD “remains unchanged”, the Welsh Government “would need to consider the extent of APD devolution and the circumstances at the time of any decision by the UK Government on devolution”.²³ He explained that devolution of APD would “secure optimal growth for both the airport and Wales”, stating that this would ultimately mean “giving serious consideration to at least reducing APD rates”.²⁴

Our inquiry

12. In light of the continuing calls by the Welsh Government for the UK Government to devolve APD to Wales, and with the UK Government’s position unchanged, we decided to take oral evidence to examine the arguments for and against devolution of the tax. Over four sessions we heard from several stakeholders including tax experts, the Chairs of commissions into devolution to Wales, airlines, representatives of Welsh businesses, airports and both the UK and Welsh Governments.

13. We also visited Cardiff Airport to meet its board of directors and informally discuss the airport’s future plans. Cardiff Airport is central to the discussions around devolution of APD because according to the 2012 Commission on Devolution to Wales report, it is the only airport in Wales from which APD is chargeable on passenger flights,²⁵ although we are aware that APD has become chargeable for some flights using Hawarden Airport in North Wales.²⁶ Cardiff Airport has been owned by the Welsh Government since 2013, after several years of decline in passenger numbers.²⁷ The Airport was previously under the ownership of the Welsh property and development firm, TBI plc.²⁸

14. Throughout the inquiry, we have sought carefully to weigh up the arguments for and against devolution. This report will therefore start by looking at the main arguments we heard for the devolution of APD. It will then consider the main arguments we heard against devolution. Inevitably, given the Welsh Government’s previous statements about abolishing or lowering APD, many of the arguments are as much about the opportunities offered by devolution and reduction of the tax, as they are about the principles of devolution. We will finally present an overall conclusion and a recommendation to the UK Government.

22 [Q154](#).

23 Rt Hon Mark Drakeford AM, [Letter to Roger Lewis](#), Cardiff Airport (25 February 2019).

24 As above.

25 Commission on Devolution in Wales, [Empowerment and Responsibility: Financial Powers to Strengthen Wales](#), (November 2012), p.67.

26 [Q105](#).

27 Cardiff Airport Media Centre, [‘Airport history’](#), accessed May 2019.

28 As above.

1 Arguments for and against the devolution of Air Passenger Duty to Wales

Arguments for the devolution of Air Passenger Duty to Wales

The principles of devolution

15. We heard arguments of principle in favour of Air Passenger Duty (APD). We were told in particular that other smaller taxes of a similar nature to APD had been devolved to Wales after being recommended by commissions looking at devolution. We were also told that given the willingness of the UK Government to devolve APD to Scotland and partially to Northern Ireland, it should also be devolved to Wales.

Recommendations made by the Silk and Holtham Commissions

16. It was put to us that the case for devolution of APD to Wales had already been made by two respected commissions following a careful examination of the evidence.²⁹ Both the 2008 Independent Commission on Funding and Finance for Wales (The Holtham Commission) and the 2012 Commission on Devolution in Wales (The Silk Commission) argued that APD was one of the smaller taxes suitable for devolution.

Box 1: Holtham Commission

- **The Holtham Commission** examined the funding arrangements for Wales, determined by the Barnett Formula, and “assessed the case for increasing Wales’s taxation and borrowing powers”.³⁰
- The Commission produced two reports in which it was argued that funding reform was needed in Wales for two reasons: the principle of devolution in general, and the benefit of Wales having control over certain taxes.³¹
- One of the reports identified APD, Landfill Tax and Aggregates Levy as “three small taxes with immobile tax bases that are linked to the policy responsibilities of the Assembly Government”.³² It stated that “in principle those three taxes are reasonable candidates for devolution” because they are “easily tied to a specific location” and “they are levied on relatively immobile activities”.³³

29 Q1 [Gerald Holtham, Sir Paul Silk].

30 Independent Commission on Funding and Finances for Wales, [First report: Funding devolved government in Wales: Barnett & beyond](#), (July 2009), [Second report: Fairness and accountability: a new funding settlement for Wales](#), (July 2010).

31 As above.

32 Independent Commission on Funding and Finances for Wales, [Second report: Fairness and accountability: a new funding settlement for Wales](#), (July 2010), p92.

33 As above, p94.

- The report argued that the Welsh Government should assess the usefulness of APD and other smaller taxes, and if the assessment concluded that “the taxes would provide Ministers with useful policy levers, then they should be devolved to Wales”.³⁴
- The Welsh Government explained that this assessment has been carried out and it concluded that the devolution of Air Passenger Duty would be a useful policy lever for the Welsh Government.³⁵ As a result, the Welsh Government has been lobbying the UK Government for APD to be devolved to Wales.³⁶
- In 2018 the UK Government devolved Landfill Tax to Wales³⁷ and have also announced that Aggregates Levy will be devolved to Wales, subject to the “resolution of current legal challenges”.³⁸ APD is the only tax out of the three not to have been devolved or to have plans to be devolved.

Box 2: Silk Commission

- **The Silk Commission** established in 2011 by the UK Government, was set up to examine Wales’s financial powers (part one of its work) and legislative powers (part two of its work).³⁹
- Its report focusing on Wales’s financial powers prompted the UK Government to “bestow a number of new financial powers on Wales” through the Wales Act 2014.⁴⁰ These included devolving Stamp Duty and Landfill Tax and enabled the Welsh Assembly to replace them with new taxes specific to Wales.
- The report also recommended that “APD should be devolved for direct long-haul flights initially”, arguing that “devolving all rates of APD to Wales should be part of the UK Government’s future work on aviation taxation”.⁴¹ It argued that devolution of APD to Wales could provide a “useful policy lever to the Welsh Government” as regional economic development aspects of environmental policy and tourism were devolved.⁴² The Welsh Government told us that this recommendation is the “only recommendation” made in the report “yet to be implemented” by the UK Government.⁴³

34 Independent Commission on Funding and Finances for Wales, [Second report: Fairness and accountability: a new funding settlement for Wales](#), (July 2010), p95.

35 Welsh Government ([APD0004](#)) para 31.

36 [Q153](#).

37 HM Revenue and customs, [Policy paper: Devolution of Landfill Tax to Wales and the 2 year transitional period for the Landfill Communities Fund](#), accessed 11 May 2019.

38 National Assembly for Wales, [Future of Tax devolution in Wales](#), accessed 15 May 2019.

39 National Assembly for Wales, [The Silk Commission and Wales Act 2014](#), accessed 2 May 2019. See also Commission on Devolution to Wales, [Silk Part 1: Empowerment and Responsibility: financial powers to strengthen Wales](#), (November 2012), and [Silk Part 2: empowerment and Responsibility: Legislative Powers to Strengthen Wales](#), (March 2014).

40 National Assembly for Wales, [The Silk Commission and Wales Act 2014](#), accessed 2 May 2019.

41 Commission on Devolution to Wales, [Silk Part 1: Empowerment and Responsibility: financial powers to strengthen Wales](#), (November 2012), p10.

42 As above.

43 Welsh Government ([APD0004](#)) para 30.

- The Silk Commission also reviewed the suitability of the devolution of four “larger taxes”: Corporation Tax, Value Added Tax, National Insurance Contributions and Income Tax.⁴⁴ It concluded that “the Welsh Government should share responsibility for Income Tax at all rates with the UK Government”.⁴⁵ From April 2019, Income Tax has been partially devolved to Wales, enabling the Welsh Government to set the rates of Income Tax to some extent. The National Assembly for Wales claim that “income tax is forecast to raise over £2.2 billion [a year] for the Welsh Government”,⁴⁶ although the Wales Office’s Main Estimate for 2019–20 states that Income Tax will raise £2.059 billion for this year.⁴⁷

17. We took oral evidence from Sir Paul Silk and Gerald Holtham, the Chairs of the two commissions, and asked them whether they stood by the conclusions of their respective reports. Sir Paul Silk said, “I am more convinced that [devolution] is a good idea than I was at the time. You might have noted a certain amount of equivocation in our report about whether APD should be devolved. I think I would be less equivocal about it now”.⁴⁸ Gerald Holtham also upheld the conclusion made by the Holtham report arguing one of the reasons it said, “yes - this is a reasonable candidate’ [for devolution], is that it does not raise any issues of collection, evasion or anything else”.⁴⁹

APD is being devolved to Scotland and has been partially devolved to Northern Ireland

18. APD was devolved to Northern Ireland for direct long-haul flights through the 2012 UK Finance Act,⁵⁰ whilst the Scotland Act 2016 made provision for the full devolution of APD to Scotland.⁵¹ The Welsh Government argued that “there is no justification for Wales being treated differently to Scotland [and] Northern Ireland”.⁵² Gerald Holtham told us that his Commission “took the view that, all things being equal, you should keep devolution as symmetrical and simple as possible”.⁵³ Sir Paul Silk also argued that “there is a principle about devolution, the principle being that if a tax is devolved in Scotland and Northern Ireland, then the argument has to be made for the tax not to be devolved in Wales”.⁵⁴ One of the main arguments made by the Welsh Government for the devolution of APD concerned equality for all devolved nations. The Welsh Government Minister, Rebecca Evans AM, referred to Scotland and Northern Ireland, arguing:

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

44 Commission on Devolution to Wales, [Silk Part 1: Empowerment and Responsibility: financial powers to strengthen Wales](#), (November 2012).

45 Commission on Devolution to Wales, [Silk Part 1: Empowerment and Responsibility: financial powers to strengthen Wales](#), (November 2012), p6.

46 National Assembly for Wales, [Future of Tax devolution in Wales](#), [accessed 17 May 2019].

47 Wales Office, [Main Estimate 2019–20: Estimates Memorandum](#), [accessed 20 May 2019].

48 [Q2](#).

49 [Q6](#).

50 Air passenger duty: recent debates and reform, [Number 5094](#), February 2019.

51 Scottish Government, [Taxes: Air Departure Tax](#), [accessed May 2019].

52 Welsh Government ([APD0004](#)), summary.

53 [Q1](#) [Gerald Holtham].

54 [Q24](#).

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.⁵⁵

19. However, the Exchequer Secretary to the Treasury, Robert Jenrick MP, told us:

It is not unusual within the devolution settlement that we have arrived at for there to be asymmetries, and for different nations to have different powers and taxes devolved to them. Where I think Wales is different [...] is that we can all understand that Northern Ireland is part of the island of Ireland, so there might be a stronger economic and practical argument there for that to be treated as a single aviation market and for Northern Ireland to have the ability to make changes to APD should they wish to.⁵⁶

In the case of Scotland, he argued:

Scotland and its airports are significant distances away from the nearest English airports and Wales is another step in itself, in the sense that Cardiff is only 60 miles from Bristol.⁵⁷

The opportunities offered by devolution

20. We also heard that there were arguments for the devolution of APD on account of the policy leverage it would give the Welsh Government. We were told in particular about the opportunities that would be offered were APD lowered or scrapped in Wales.

It could unlock the potential of Cardiff Airport

21. We heard that if Air Passenger Duty were to be devolved, and subsequently abolished or reduced, it would unlock the potential of Cardiff Airport, potentially attracting new airlines and increasing passenger numbers to Wales. Debra Barber, the Chief Executive of Cardiff Airport, told us that several airlines had approached Cardiff Airport stating “that if APD was lower, they would expand into the UK and into our airport”.⁵⁸ She said:

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.⁵⁹

In its written evidence, Cardiff Airport argued that attracting new airlines would increase passenger numbers, as more routes would be available for passengers to choose from.⁶⁰ Ms Barber told us that if APD were devolved and reduced, it was estimated that passenger numbers at Cardiff Airport would initially increase by between 100,000 and 400,000 a year, “with a maximum of about 600,000 extra passengers by 2025”.⁶¹

55 [Q157](#) [Rebecca Evans AM].

56 [Q223](#).

57 [Q197](#).

58 [Q121](#) [Debra Barber].

59 [Q121](#) [Debra Barber].

60 Cardiff Airport ([APD0008](#)), summary.

61 [Q135](#).

22. Representatives of airlines including Ryanair and Flybe agreed with this conclusion, stressing how successful Cardiff Airport would be should the devolution of APD lead to its abolition in Wales. Kate Sherry, Director of Route Development at Ryanair, argued:

[...] as a pan-European airline, in our world the UK airports compete for capacity with other airports across Europe. Therefore, no APD in Cardiff would make the airport much more competitive when it comes to securing capacity. If we look at the profile of the airport, at the moment it is predominantly low fares or low-cost carriers, so APD represents a larger proportion of the fares. It would make the airport considerably more successful - particularly in these times when there is a lot of uncertainty [...]⁶²

She highlighted that for every 1 million passengers received by low-cost airlines, “there are 750 new airport jobs created plus the associated support jobs in a region”.⁶³ She added that the devolution of APD to Wales would “have a positive effect, both on Cardiff Airport and the region, and it would allow the Airport to make up some of the ground that it has lost over the years to other airports, particularly Bristol”.⁶⁴ Susie Reckitt, Director of Strategy at Flybe, explained that a reduction or removal in APD could “significantly” benefit Cardiff Airport which is “a bit more cost sensitive than some of the larger airports”, because it is used by several low-cost airlines.⁶⁵

Cardiff Airport could complement busier airports

23. We were told that supporting Cardiff Airport through a reduction in APD would enable it to complement larger and busier airports like Bristol, which is making plans for expansion because it is nearly at capacity. Kate Sherry from Ryanair argued that if Cardiff Airport were able to expand and compete with Bristol Airport, it would “probably lead to lower prices and more choice for all passengers within both catchment areas [Bristol and Cardiff], rather than the current situation”.⁶⁶ Dave Lees, the Chief Executive of Bristol Airport, took issue with this point. He explained to us that in 2018, Bristol Airport handled just over 8.6 million passengers,⁶⁷ (in contrast to Cardiff Airport which handles approximately 1.5 million passengers a year).⁶⁸ Mr Lees explained that Bristol Airport “currently has a capacity cap imposed by the local authority, of 10 million passengers”.⁶⁹ This suggests that in a few years’ time, Bristol could be at capacity. However, Mr Lees told us that Bristol Airport “have stated [their] intent to grow the Airport in a progressive manner over a period of time”.⁷⁰ He also referred to the planning application lodged with the local authority to expand the airport, which if approved would take the Airport to a capacity cap of 12 million passengers.⁷¹

62 [Q70](#) [Kate Sherry].

63 As above.

64 As above.

65 [Q70](#) [Susie Reckitt].

66 [Q70](#) [Susie Reckitt].

67 [Q127](#).

68 [Q72](#) [Susie Reckitt].

69 [Q127](#).

70 As above.

71 [Q127](#).

24. Gerald Holtham also stated that Cardiff Airport was “an underutilised resource,” arguing that “transferring some of that traffic [from Bristol to Cardiff] makes sense”.⁷² Furthermore, Ben Cottam, Head of External Affairs at the Federation of Small Businesses (FSB) emphasised that by looking at “international traffic, there is something that Cardiff can do that is complementary to Bristol and the region rather than displacing”.⁷³ Sir Paul Silk explained that “Cardiff Airport has a longer runway than Bristol and has fewer restrictions on the number of flights that it has, so the possibility of long-haul flights coming into Cardiff, without doing a disservice to Bristol, was the basis for our recommendation [in the Silk report]”.⁷⁴

25. The Welsh Government also argued that devolution of APD to Wales, and its subsequent abolition or reduction, could enable “services from Cardiff Airport [to] relieve some of the immediate pressures on Heathrow - and other UK airports in time”.⁷⁵ It emphasised that if Cardiff Airport were able to take some of the pressure off other English Airports, it would result in “fewer delays at airports and on the surrounding transport network”.⁷⁶ It stated that airports outside of the South East of England “can play an important role in helping accommodate the forecast growth in demand for aviation across the UK”.⁷⁷

26. We also heard that there could be some environmental benefits from passengers making the shorter journey to Cardiff Airport. Debra Barber from Cardiff Airport claimed that car journeys would be significantly reduced for those passengers who usually travel from South Wales to Bristol Airport, because a reduction in APD would mean that Cardiff Airport would be able to potentially attract more airlines and routes.⁷⁸ She maintained that this would decrease the amount of emissions produced by those taking longer car journeys to Bristol Airport, as they would be able to take much shorter journeys to Cardiff Airport. Ms Barber also argued that there is a “significant amount” of leakage from South Wales to London for long-haul flights, “so the opportunities to stop the long journeys up the M4 are significant, if we can attract more long-haul flights to Cardiff”.⁷⁹

A reduction in APD could boost the Welsh brand and promote economic growth

27. We were told that, whilst most of the benefits would be seen in South Wales, a reduction in APD could indirectly benefit North and Mid Wales by boosting the Welsh ‘brand’ and sending a signal that Wales, as a whole, was open for business. Ashley Rogers from the North Wales Economic Ambition Board told us that if APD were to be devolved to Wales, it could indirectly benefit North Wales in terms of “brand and image”.⁸⁰ He said:

There is an indirect benefit for the brand of Wales. It is good to have the kind of open for business attitude that it would give Wales for trade and investment.⁸¹

72 [Q5](#).

73 [Q108](#) [Ben Cottam].

74 [Q20](#).

75 Welsh Government ([APD0004](#)) para 13.

76 As above.

77 As above.

78 [Q144](#) [Debra Barber].

79 [Q144](#) [Debra Barber].

80 [Q105](#).

81 As above.

28. Several other witnesses also considered how North Wales could potentially see indirect benefits. Ben Cottam from the Federation of Small Businesses (FSB) Wales told us that “the impact of APD on businesses [in Wales] is more about the constraints on airlines to create routes that generate opportunity for businesses to trade either within the UK and overseas in Europe and further afield”.⁸² He explained that devolution of APD, and the subsequent abolition or reduction in it, would benefit all of Wales as it could boost connectivity to Wales thereby increasing trading opportunities including with North America.⁸³ He explained that even a boost in short-haul connectivity to Wales could help Wales in trying to develop in areas such as “life science and even creative industry, which could benefit from greater links”.⁸⁴

29. The Welsh Government argued that the benefits from the devolution of APD would be brought to the whole of Wales. Rebecca Evans AM, Minister for Finance and Trefnydd, told us that the Welsh Government would be “very keen to ensure that any benefits brought to Wales through a potential reduction in APD would benefit the whole of Wales”.⁸⁵ Simon Jones, Director for Economic Infrastructure at the Welsh Government’s Department for the Economy and Transport, explained that “APD devolution would be part of a suite of measures that [Ken Skates AM, Minister for Economy and Transport] would want to be thinking about using to develop the economy of Wales”.⁸⁶ He explained that “there are different measures that are appropriate in different locations”.⁸⁷ He also argued that North Wales could experience “significant benefits” with the introduction of HS2, most of which would not be seen in South Wales.⁸⁸

Arguments against the devolution of Air Passenger Duty to Wales

30. We also heard arguments against the devolution of Air Passenger Duty (APD) to Wales. Some of the main concerns expressed to us included the impact it could have on English airports close to the border of Wales, the environmental impact and the suggestion that Cardiff Airport already has a competitive advantage being under the ownership of the Welsh Government.

Devolution of APD could take business away from English airports serving Wales

31. There are several English airports relatively close to the border that serve passengers from across Wales. These airports remain concerned about the impact devolution of APD could have on their passenger numbers and businesses, particularly if the Welsh Government were to scrap or reduce the tax.

32. Bristol Airport is the main English airport serving passengers from South Wales. It stated that around 20% of its passengers have an origin or destination in Wales and argued that devolution of APD to Wales could have a “detrimental effect” on its operations.⁸⁹

82 [Q98](#) [Ben Cottam].

83 [Q109](#).

84 As above.

85 [Q160](#).

86 [Q161](#) [Simon Jones].

87 As above.

88 As above.

89 Bristol Airport ([APD007](#)) para 1 and para 9.

[...] Full or partial devolution of Air Passenger Duty (APD) to Wales and a subsequent reduction or zero-rating of the tax would have a detrimental effect not only on our business, but also on passengers and businesses in the shared catchment area that both Bristol Airport and Cardiff Airport serve.⁹⁰

33. In 2014, Bristol Airport commissioned York Aviation, a specialist aviation consultancy, to provide an assessment of the potential impact devolution of APD to Wales could have on Bristol Airport and the economy of the South West of England. The report argued that devolution would threaten Bristol Airport’s business development ambitions, its route development prospects and the South West economy.⁹¹ Dave Lees, the Chief Executive of Bristol Airport told us that devolution of APD to Wales would have a “material impact” on Bristol Airport in terms of passenger numbers. He explained that the York Aviation report concluded that if APD were devolved to Wales, Bristol Airport could see a “substantial decrease in passenger numbers of 1 million passengers per annum”.⁹²

34. We heard, however, that another report had come to different conclusions. In 2017, the Welsh Government commissioned another aviation and travel consultancy, Northpoint Aviation, to assess the impact of devolution of APD to Wales. The aim of the report was to “examine the potential market, competition and economic implications of devolving Air Passenger Duty (APD) to the National Assembly for Wales; and in particular to compare the outcomes of different APD regimes on Cardiff and Bristol Airports and on the economies of South Wales and the South West of England”.⁹³ The report stated that the York Aviation report made the assertion that Bristol and Cardiff airports “serve the same aviation market because their catchments overlap substantially”.⁹⁴ The Northpoint report concluded that “there are two distinct catchments which are clearly discernible at least in the case of domestic and international short haul traffic, which currently makes up the bulk of the current passenger traffic at both airports”.⁹⁵ It therefore stated that it “does not expect Bristol to lose any route or any material frequency from its current network” and “hence it seems reasonable to conclude that the ‘clawback’ of traffic that would be generated by changed to the rate of APD in Wales would have only marginal impacts on services from Bristol”.⁹⁶ However, Mr Lees told us that “even the Northpoint report highlighted that the figure [of the number of passengers lost from Bristol Airport] was 600,000⁹⁷ which is a substantial number of passengers”.⁹⁸

35. The main airports serving passengers in North Wales are Manchester and Liverpool airports. According to Manchester Airports Group, 1 million passengers from North Wales used Manchester Airport in 2017.⁹⁹ Both airports considered that devolution of APD to Wales could have a negative impact on them. Manchester Airports Group states:

90 Bristol Airport ([APD007](#)) para 1.

91 York Aviation, [The impact of devolving Air Passenger Duty to Wales](#), (2015), .

92 [Q129](#).

93 Northpoint Aviation, [Devolution of Air Passenger Duty to Wales](#), (June 2017), p2.

94 As above.

95 As above.

96 Northpoint Aviation, [Devolution of Air Passenger Duty to Wales](#), (June 2017), p2.

97 The Northpoint report offers an assessment of six various policy scenarios. Scenario 6 assesses a worst-case scenario for Bristol Airport, whereby APD is devolved to Wales, reduced by 100% and other incentives are offered to attract airlines. It is in this scenario that estimates 658,000 passengers would be lost to Bristol Airport. Scenarios 1–5 all estimate a smaller number of passengers lost to Bristol.

98 [Q129](#).

99 Manchester Airports Group ([APD0012](#)), para 3.5.

[...] Whilst it could be argued that the devolution of APD could aid the development of Cardiff Airport, it could have a major impact on the ability of those serving the north of the country (predominantly Manchester Airport) to attract new routes of strategic importance to the North Wales economy.¹⁰⁰

Graeme Elliott, Corporate Affairs Director at Manchester Airport, told us that whilst there would be “little impact on services that operate” from Manchester Airport and that devolution of APD would not “draw passengers away” from the Airport, devolution of APD had the potential to impact on “the development of new routes” because Cardiff Airport could gain more connections.¹⁰¹ He acknowledged that if APD were to be devolved to Wales there would be some gain in connectivity, but he stressed that “the important thing is connectivity for Wales, not necessarily in Wales”.¹⁰² Manchester Airports Group also argued that instead of devolving APD “a better investment to boost the economy of North Wales would be greater surface access to its primary gateways, with the predominant one being Manchester Airport”.¹⁰³

36. One of the main airports serving Mid Wales is Birmingham Airport. In its written evidence, Birmingham Airport argued that if APD were devolved to Wales, and subsequently abolished, it would see a reduction in passenger numbers of approximately 64,000 per annum.¹⁰⁴ It argued that many passengers in the West Midlands who currently use Birmingham Airport would start using Cardiff Airport instead and this would create “an unnecessary market distortion”.¹⁰⁵

Those living in South Wales could see more benefits than those living in Mid and North Wales

37. Cardiff Airport is situated in the Vale of Glamorgan, South Wales. If APD were to be devolved to Wales, and subsequently reduced or abolished, Cardiff Airport would be the only major airport to benefit, with Manchester Airport highlighting that in 2017, “more than 900,000 passengers from North Wales used Manchester”.¹⁰⁶ While people living in South Wales could experience lower airfares, those in North Wales would continue to pay APD because their nearest airports are in England.

38. Duncan Simpson from the Tax Payers’ Alliance (TPA) argued that the benefits of the devolution of APD would not be felt across the whole of Wales, because people in Mid and North Wales use English airports and would therefore see no benefits if APD were devolved. He argued that instead of focusing on the devolution of APD to Wales, the UK Government should focus on addressing APD “much more holistically”.¹⁰⁷ He said that a UK-wide approach, where APD was lowered or abolished across all parts of the UK,

100 Manchester Airports Group ([APD0012](#)), para 2.3.

101 [Q138](#).

102 [Q139](#).

103 As above.

104 Birmingham Airport ([APD00014](#)), para 2.

105 Birmingham Airport ([APD00014](#)), para 2.

106 Manchester Airports Group ([APD0012](#)), para 3.3.

107 [Q98](#) [Duncan Simpson].

should be taken in order to make it fair.¹⁰⁸ The TPA argued against the devolution of APD to Wales stating that the UK Government should aim to reduce the tax for the UK as a whole, in the interests of fairness.¹⁰⁹

39. Ashley Rogers from the North Wales Economic Ambition Board (NWEAB) also argued that a UK-wide approach was needed to address the issue of APD, but if that was not possible then the NWEAB would support the devolution of APD to Wales. Despite highlighting that North Wales could benefit indirectly from the devolution and reduction of APD, through the image and branding of Wales as being open for business, he did state that “the benefits to North Wales are pretty much zero”.¹¹⁰ He emphasised that 91% of people in North Wales used Manchester and Liverpool Airports and that few people from North Wales use Cardiff Airport, “so there is no direct benefit for us”.¹¹¹

Cardiff Airport already has a competitive advantage

40. Duncan Simpson from the TaxPayers’ Alliance argued that Cardiff Airport “is already benefiting from a pretty distinct competitive advantage in a few areas,” listing the ownership of Cardiff Airport by the Welsh Government as one advantage and the “numerous cash injections” the airport has seen, as another.¹¹² He argued that bringing APD down would be an even bigger advantage to the Airport.¹¹³ A similar point was made by the Exchequer Secretary, Robert Jenrick MP, who acknowledged that under state ownership Cardiff Airport “is being invested in very heavily as well”.¹¹⁴

The aviation industry is under-taxed

41. Whilst several witnesses argued that APD was the most expensive aviation tax in Europe, a panel of tax experts explained to us that the aviation industry is relatively under-taxed. David Phillips from the Institute of Fiscal Studies told us that while APD is higher than other taxes of a similar type internationally, “other countries could be under-taxing air travel”.¹¹⁵ He explained:

It should be recognised that in many ways air travel is under-taxed. Airline fuel is not subject to tax like fuel for road transport, for instance, and airline tickets are not subject to VAT domestically or internationally.¹¹⁶

Mr Phillips said that the UK “is actually unusual in not subjecting [air travel] to VAT.”¹¹⁷ Furthermore, Robert Jenrick MP, Exchequer Secretary to the Treasury also reiterated that “there is no duty on commercial aviation fuel and there is no VAT on airline tickets”.¹¹⁸ He argued “were you not to pursue APD, not only would we lose £3.4 billion to the Exchequer but this would also be a sector of the economy that was not paying a very significant contribution”.¹¹⁹

108 [Q98](#) [Duncan Simpson].

109 TaxPayers’ Alliance ([APD0005](#)).

110 [Q104](#). See para 25.

111 [Q105](#).

112 [Q100](#).

113 As above.

114 [Q188](#).

115 [Q54](#) [David Phillips].

116 As above.

117 As above.

118 [Q180](#).

119 [Q180](#).

The environmental impact

42. We heard that the devolution and subsequent reduction or scrapping of APD could increase air traffic to Cardiff Airport, which in turn could increase carbon emissions. Although APD was not introduced as an environmental tax,¹²⁰ environmental organisations such as the Aviation Environment Federation (AEF) have argued that APD is “already a very modest tax on a sector that gets off lightly”.¹²¹ In a 2016 report on its concerns about devolution of APD to Scotland, AEF argued:

[...]in the absence of other measures, APD goes some way towards making up the shortfall for an undertaxed industry, with zero VAT or fuel duty being charged on an airline ticket”.¹²²

AEF added that “aviation CO₂ is set to exceed the maximum level compatible with climate legislation” in the UK. It emphasised that this is even more problematic considering the commitments made by the UK Government through the signing of the 2015 Paris Agreement¹²³ to cut emissions.¹²⁴

43. The Welsh Government acknowledged that air travel had implications for environmental policy but argued that:

As environmental protection and management of natural resources are devolved issues, the Welsh Government believes it should have the ability to make decisions about how best to deliver economic growth and secure environmental objectives.¹²⁵

Rebecca Evans AM and Simon Jones also highlighted that should APD be devolved to Wales, “the necessary environmental impact assessments” would be carried out before any decision would be made about how to use the tax.¹²⁶

44. The Scottish Government has recently abandoned plans to scrap or reduce APD after declaring a “climate emergency”.¹²⁷ Just like the Welsh Government, the Scottish Government had originally planned to abolish or reduce APD once it had been devolved to them. However, Derek Mackay MSP, Scotland’s Finance Secretary said that this was “no longer compatible” with Scotland’s climate change targets.¹²⁸ The Scottish Government has said:

120 The main justification made by the UK Government at the time for introducing APD was that air transport “has been relatively undertaxed in the past, first because there is no VAT on most journeys and secondly, because of international agreements, there is no excise duty on fuel used by aircraft, unlike many other forms of public transport which carry excise duties and other taxes on their fuel.” (*Air Passenger Duty: introduction*, [Number 413](#), House of Commons Library, (February 2019), p7).

121 Aviation Environment Federation, [The case for Air Passenger Duty](#), September 2016.

122 Aviation Environment Federation, [Economic and environmental concerns about Scottish Government’s Air Passenger Duty plans](#), 2016.

123 The Paris Agreement was the first legally binding global climate deal adopted by 195 states in 2015. It establishes a global action plan to “put the world on track to avoid dangerous change by limiting global warming” (European Commission, [Climate Action: Paris Agreement](#), [accessed 15 May 2019]).

124 Aviation Environment Federation, [The case for Air Passenger Duty](#), September 2016.

125 Welsh Government ([APD0004](#)), para 32.

126 [Q154](#) [Rebecca Evans AM] and [Q163](#) [Simon Jones].

127 SNP, [How the SNP is leading the way on climate change](#), [accessed 13 May 2019].

128 As above.

Following the updated advice from the UK Committee on Climate Change - and new 2045 target for net zero emissions proposed as a result - we have taken the difficult decision that reducing ADT [APD] is no longer compatible with Scotland's new emissions reduction targets.¹²⁹

Reductions in the Welsh Government's funding

45. Wales currently receives an annual block grant which is determined by the Barnett Formula. The Welsh Government acknowledged that if APD were devolved to Wales, the Welsh Government's funding "would be correspondingly reduced through a block grant adjustment",¹³⁰ which if the Welsh Government decide to abolish or reduce APD, would leave a shortfall in Wales's finances. Gerald Holtham raised this issue, explaining that "in the first year there is no difficulty [in making a reduction to the block grant] [...] but after that you cannot link the reduction in the block grant to the revenues received in the devolved territory because if you do that you would have not devolved the tax".¹³¹ He explained:

The adjustment of the block grant cannot be correlated with the actual revenues that are received in the devolved territory. That enables the devolved territory to have a policy instrument. They can raise or lower the tax and they will get more or less revenue and it will not be cancelled by the block grant. It also exposes them to risk: if the revenue goes up or down for reasons that they cannot control, they will have to take the lumps.¹³²

46. This was a "potential drawback" also acknowledged by the Welsh Government which stated, "in terms of costs to the Welsh Government, we recognise that tax devolution does not come in addition to current funding levels". It continued:¹³³

This [block grant adjustment] is likely to be initially equivalent to the amount of APD revenue generated in Wales [...] in addition, there are likely to be some administration costs for the Welsh Government from operating a devolved system of APD in Wales.¹³⁴

In oral evidence Rebecca Evans AM told us that the adjustments made to the Welsh block grant "would reflect APD, which the latest estimates by HMRC for 2017–18 show was in the region of £6 million".¹³⁵ Therefore if APD were abolished in Wales, Wales could lose £6 million in income in real terms each year from the block grant.

47. When we asked the Welsh Government how they would they would make up the shortfall in funding if APD were abolished or reduced, Rebecca Evans AM responded:

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.¹³⁶

129 Scottish Government, [Taxes: Air Departure Tax](#), [accessed 17 May].

130 Welsh Government ([APD0004](#)), para 16.

131 [Q8](#).

132 As above.

133 Welsh Government ([APD0004](#)), para 16.

134 As above.

135 [Q164](#).

136 [Q162](#).

Conclusion and recommendation

48. Our examination of the arguments made for and against the devolution of APD has raised a number of issues, some about devolution, some about APD itself. We have not taken a view on whether APD should be scrapped or reduced in Wales, and there are a number of finely balanced factors, including environmental concerns and the boost it could give to Cardiff Airport. It would be for the Welsh Government to decide how to use this tax, if it were devolved to Wales.

49. However, if the UK Government has been prepared to devolve the other taxes recommended by the Silk Commission, including the partial devolution of income tax which involves a significant amount of money, it should be able to trust the Welsh Government with APD, which involves only a fraction of this amount. Furthermore, the willingness of the UK Government to devolve APD partially to Northern Ireland and fully to Scotland, also raises a question of equity in the devolution process.

50. We understand the arguments made by Bristol Airport, but as it is already a strong performer with far more passengers than Cardiff Airport, we are not persuaded that its successful business would suffer significant and lasting damage, even if APD were abolished entirely.

51. After considering the evidence for and against the devolution of APD to Wales, we concluded that APD should be devolved to the National Assembly for Wales. We recommend that the UK Government set out proposals to devolve APD to the Welsh Assembly, with APD being fully devolved by 2021.

52. We nonetheless acknowledge some will have concerns about the impact that the abolition or reduction of APD could have on the environment. We note the Scottish Government has recently announced that it will abandon plans to scrap or reduce APD in Scotland due to environmental concerns. We note the Welsh Government's commitment to conduct an environmental impact assessment if APD is devolved, before deciding what changes it would make to the duty, and we stress the importance of doing so.

Formal minutes

Tuesday 4 June 2019

Members present:

David T. C. Davies, in the Chair

Guto Bebb	Susan Elan Jones
Geraint Davies	Ben Lake
Jonathan Edwards	Anna McMorrin

Draft Report (*Devolution of Air Passenger Duty to Wales*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 52 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available (Standing Order No. 134).

[Adjourned till Tuesday 11 June at 2pm]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Tuesday 8 January 2019

Sir Paul Silk, Chair of the Commission on Devolution in Wales, and **Gerald Holtham**, Chair of the Independent Commission on Funding and Finance for Wales [Q1–32](#)

David Phillips, Institute for Fiscal Studies, **Mike Trotman**, Deloitte LLP and Chartered Institute of Taxation, and **Tom Walsh**, Deloitte LLP [Q33–57](#)

Tuesday 29 January 2019

Robert Griggs, Policy and Public Affairs Director, Airlines UK, **Susie Reckitt**, Director of Strategy, Flybe, **Kate Sherry**, Director of Route Development, Ryanair [Q58–97](#)

Ben Cottam, Head of External Affairs, Federation of Small Businesses (FSB) Wales, **Ashley Rogers**, Chairman of the North Wales and Mersey Dee Business Council, **Duncan Simpson**, Policy Analyst, TaxPayers' Alliance [Q98–118](#)

Thursday 7 March 2019

Debra Barber, Chief Executive Officer, Cardiff Airport, **Graeme Elliott**, Corporate Affairs Director, Manchester Airports Group (MAG), and **Dave Lees**, Chief Executive Officer, Bristol Airport [Q119–152](#)

Rebecca Evans AM, Minister for Finance and Trefnydd, **Simon Jones**, Director for Economic Infrastructure, Department for the Economy and Transport, and **Dr Andy Fraser**, Acting Deputy Director, Tax Strategy, Policy and Engagement, Welsh Government [Q153–179](#)

Tuesday 26 March 2019

Robert Jenrick MP, Exchequer Secretary to the Treasury, **Ann-Therese Farmer**, Deputy Director, Energy and Transport Tax, HM Treasury [Q180–229](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

APD numbers are generated by the evidence processing system and so may not be complete.

- 1 ABTA - The Travel Association ([APD0002](#))
- 2 Airlines UK ([APD0013](#))
- 3 Birmingham Airport ([APD0014](#))
- 4 Bristol Airport Ltd ([APD0007](#))
- 5 Cardiff Airport ([APD0008](#))
- 6 Chartered Institute of Logistics and Transport Cymru Wales ([APD0003](#))
- 7 HM Treasury ([APD0017](#))
- 8 IoD Wales ([APD0006](#))
- 9 Liverpool John Lennon Airport ([APD0001](#))
- 10 Manchester Airport ([APD0012](#))
- 11 Ryanair ([APD0011](#))
- 12 TaxPayers' Alliance ([APD0005](#))
- 13 Wales TUC ([APD0016](#))
- 14 Welsh Government ([APD0004](#))
- 15 Welsh Government ([APD0015](#))
- 16 Welsh Government ([APD0018](#))

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website.

Session 2017–19

First Report	The cancellation of rail electrification in South Wales	HC 403
Second Report	Brexit: priorities for Welsh agriculture	HC 402
Third Report	Wylfa Newydd nuclear power station	HC 1938
Fourth Report	Prison provision in Wales	HC 742
First Special Report	The cancellation of rail electrification in South Wales: Government Response to the Committee's First Report	HC 1535
Second Special Report	Brexit: priorities for Welsh agriculture: Government Response to the Committee's Second Report	HC 162