

Air Passenger Duty and Developing Economies

Question for Short Debate

7.34 pm

Asked By Baroness Benjamin

To ask Her Majesty's Government what assessment they have made of the impact of air passenger duty banding on the Caribbean and other developing economies.

Lord Taylor of Holbeach: My Lords, it may be for the convenience of the House if I remind noble Lords that, for the dinner-hour debate, speeches are limited to four minutes. It is a time-limited debate and I hope noble Lords will respect that so that everybody can have a say. When the Clock says that four minutes are up, you are into the fifth minute.

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Baroness Benjamin: My Lords, since I requested this debate some six months ago the Government have announced a consultation on air passenger duty, which is most welcome. I will address some of the key points of the consultation in my speech. I am aware that the question of APD and its impact on the Caribbean has been raised in this House in the past by the noble Baroness, Lady Howells, and the noble Lord, Lord Palmer. Nevertheless, I want to put this debate in context by talking about the present impact of APD on the Caribbean and its community here in the UK, the economic importance of tourism to that region and the environmental concerns of the region.

In 2010, following meetings with the Treasury and other Ministers, the Caribbean Tourism Organisation produced a concise review of the relationship between aviation taxation and the arrival of Caribbean visitors, with a specific focus on the value of tourism to the Caribbean; the projected impact of increases in the cost of flights as a result of taxation; and evidence about the impact of APD on the Caribbean community in the UK. The CTO report showed that Caribbean Governments recognise that it is not easy to separate out figures for declining tourism arrivals in relation to APD, given the global financial climate and other economic factors. However, it is possible to demonstrate in other ways the negative impact that APD is having on the economies of the region.

The report also demonstrated that the UK Treasury had created a banding system that discriminated against the Caribbean and its diaspora here in the UK. It also noted that the APD banding system favoured the USA, a major competitor of the Caribbean, and that it was inconsistent as it divided Russia into two zones but regarded all of the US as one. The banding system also takes no account of the impact that taxes have on Caribbean nations as they change from agriculture to largely tourism-based economies. The report made it clear that the large increases to APD last year would be particularly damaging as hotels and airlines were reaching a point at which they could not continue to absorb the costs through discounting. The result of

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this would be that, once jobs were lost and hotels closed, it would not be easy to get them back. Tourism is important to the Caribbean. Globally, the tourist industry is the 13th largest. It is the largest in its relative contribution to national economies, and 10th

largest in its contribution to long-term national growth. The Caribbean is by far the most tourism-dependent region in the world.

Last year the Prime Minister, David Cameron, confirmed that tourism was the third-largest contributor to the UK's economy and should be integrated into all aspects of government policy. He said that it was fundamental to the rebuilding of Britain's economy, and that it was the best and fastest way to generate jobs. However, ironically, APD is a tax on Caribbean development, as well as on other developing countries around the world, particularly in Africa and the British Overseas Territories.

It is only in recent years that the Caribbean has become so dependent on tourism, as agriculture-in the form of bananas and sugar-previously underwrote many Caribbean economies because of their historical link with the UK and Europe. However, when Europe cut those preferential arrangements the Caribbean turned to tourism to replace lost income, with the encouragement of the UK and Europe. Caribbean Governments now raise income through tourism taxation from hotels, their support services, transport, tourist shops, food suppliers, entertainment and restaurants. It is clear that any negative impact on tourism in the Caribbean will have far-reaching consequences. If jobs are lost and alternative employment is not available, we all know that this will have a cost for Governments in supplying welfare, as well as from the potential increase in crime.

The UK, as a hub, plays a vital role in growing tourism in developing nations. London acts as a transit point for visitors from China, India, central Europe and Russia. Gatwick Airport is the start of the main route to the Caribbean and annually provides 5,600 flights to the region. This supports 23,000 jobs, so APD will have an impact here too. This link is also important to the Caribbean for business and investment because, without sufficient airlift, investors will not put their money into Caribbean projects. Travel agents who specialise in Caribbean travel are reporting a decrease in bookings, and APD has been cited as a reason for this.

The UK is home to around 800,000 members of the Caribbean diaspora, and they view APD with a huge sense of injustice. Many of these citizens were encouraged to come to the UK in the 1950s and 1960s and have spent their lives working in public service. Now in retirement, the money they have saved to pay for visits, often for funerals, weddings or to see sick relatives, suddenly does not go as far, as many of them have been low-income earners. Some are also concerned that their families and friends who work in the tourism industry back home may lose their jobs, and at this time of recession they are less able to send money to help them. It seems that the impact on this section of our society has not been given any consideration. There was no consultation about the introduction of the four-band system, no impact assessment and no

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sense of partnership. I understand that the Department for Transport has provided the Treasury with its assessment of the impact of APD, so I would be interested to hear from the Minister what its advice is.

It was positive news when the Chancellor announced a consultation on APD in the Budget and proposed two options for reform of it-a two-band and a three-band system. A two-band system was proposed in a report issued last year. The report said that if all short-haul economy flights saw an APD increase of just a few pounds, the rest of the world could be grouped together into what is currently band B, at the current rate of £60 in economy. This would seem a simple solution as it not only addresses the unfairness of the current banding system but, if it allowed APD for long-haul destinations to be fixed at the current band B rate, would address the concerns of developing countries about competition and the damaging impact of the tax, even though the long-haul band would

remain high and still have an effect on developing nations' economies. Some feel that the three-band system put forward by the Treasury consultation retains the current distance banding structure and does nothing to address the concerns of the Caribbean about discrimination vis-à-vis the USA-the very issue the Chancellor referred to in his Budget Statement.

I turn to the environmental issues. Some believe that there was an environmental reason behind the introduction of the four-band system. Others believe that it was a means of raising taxes. But surely if we are concerned about the environment, we should consider the fact that 70 per cent of flights from the UK are to short-haul destinations, which, interestingly, are the only flights that can realistically be substituted with other means of transport, unlike those to the Caribbean. From 2012, carbon emissions from aviation will be covered by the EU Emissions Trading Scheme, which is a market-based approach. A recent report produced by Standard & Poor's suggests that passengers could face a rise in fares of up to €40 per ticket once it is introduced. The Government have confirmed that this would be on top of APD, resulting in charges for flights departing from the UK to long-haul destinations exceeding £100, taking into account the current APD rates. That would deliver another blow to the Caribbean tourism industry. Changes in sea levels are of real environmental concern to Caribbean Governments, who have fully supported global climate change initiatives. Yet now they feel that they are likely to have to pay the price for the UK's concern about climate change through an unfair tourism tax.

I shall sum up. Tourism is a highly competitive industry and the consultation, which includes a review of the issue of competition, is welcome. It is hoped that the Treasury will not keep the anti-competitive system in place. If our Government recognise the value of tourism to the UK, surely they should consider the impact of our domestic tax measures on the Caribbean and other developing economies. I believe that APD was not intended to damage Caribbean tourism, but the law of unintended consequences has come into play. We must consider how government policy, and proposed reforms to it, impact on developing countries. It is our duty to do so.

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7.44 pm

Lord Morris of Handsworth: My Lords, I start by recording my thanks to the noble Baroness for securing this important debate. I too welcome the Chancellor's announcement that the APD will not be increased this year, as was projected. On the face of it, the Chancellor's announcement seems to be good news-no increase must be good news. The APD was introduced as a green tax by the Conservative Government in 1994 but has always had a negative impact on the Caribbean. Here I must declare an interest as a frequent flyer to Jamaica, my country of birth.

While the tax has never been good for those with an interest in the Caribbean, the application of the APD discriminatory banding structure has had an adverse impact on Caribbean countries and their economies, and, as I will show, on British businesses as well. We have heard that the APD banding structure is calculated according to the distance between London and the capital city of the country to which you are flying. Whatever the miles and the destinations involved, the fact of the matter is that the calculation from London to the relevant capital city discriminates significantly against the Caribbean. I give an example. The distance from London to Los Angeles is nearly 2,000

miles more than the distance between London and Washington, so a flight to Los Angeles would be in band B-one of the cheaper bands. At the same time, the flight from London to Kingston, the capital of Jamaica-it is in band C, which is much more expensive-is some 800 miles less than that from London to Los Angeles. Common sense would lead one to assume that the APD will be higher travelling to Los Angeles than to Kingston, Jamaica, but the banding structure determines otherwise.

A week ago, the APD was described on the BBC consumer programme "Watchdog" as "barking mad". The commentator described the policy as something dreamed up during the tea break. As an expert in defending the tea break, I disagree. The way I see it, those responsible for that policy could not run a social event in a brewery. Last September, the Caribbean Tourism Organisation met Ministers and identified some of the negative impacts which the APD has on Caribbean countries and their economies. They pointed out that the Caribbean is more tourism-dependent than any other region of the world. They also said that UK companies in the aviation, tourism and travel industries are being damaged by the APD as bookings to the Caribbean decline. This was confirmed in October last year by Willie Walsh, the then chief executive of BA. He described the duty as having a devastating effect on arrivals to the Caribbean. The chief executive of easyJet informed the "Today" programme this week that 77,000 jobs in the aviation industry are at risk as a result of the APD.

As we consider the impact of the APD on the Caribbean economy, let us not forget the opportunity cost to the UK economy as passengers look for cheaper alternatives. Everyone with an interest must come to the conclusion that the APD is unfair, unclear and economically damaging both to Caribbean economies and to UK interests, and it should go.

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Lord Palmer: My Lords, I, too, thank the noble Baroness, Lady Benjamin, for securing this slot to air again this grotesquely unfair tax. I must declare interest as someone who opens their home and gardens to the visiting public and who is dependent on a vibrant incoming tourist industry. I also declare an interest as a residual beneficiary of a landlocked estate on the picturesque island of St Lucia. I care passionately about those who live and work on the estate.

I feel sorry for the noble Lord, Lord De Mauley, who will have to fasten his seatbelt as he endures an hour of strong turbulence. All of us will be singing from the same hymn sheet.

I do not believe in retrospective taxation, but my left-wing tendencies gather momentum every time I learn that private jets are exempt from APD. That is a scandal, and both Administrations should hang their heads in utter shame.

It is a complete myth that this is an environmental tax. Not only are private jets exempt, but so, also, are all cargo shipments. Holland and Belgium, for example, recently had the sense to abandon their equivalent, realising the damage that APD has done to their economies. Meanwhile, in the past six years, APD in this country has risen by a staggering 325 per cent-I repeat, 325 per cent. London is now a far more expensive destination than all our rival European cities, especially for those coming from China,

India, Australasia and Russia. Ireland has announced that its levy will be cut from €10 to just €3. When we compare that with the levy of £85 for someone travelling in economy class to Ireland from United Kingdom, it makes a complete mockery of that tax. Not unnaturally, more and more travellers living in the regions are choosing to fly long-haul via Amsterdam, Paris or Frankfurt rather than Heathrow to avoid that tax.

We all despise taxes in every shape and in every form, but APD is a wholly unfair tax. Her Majesty's Government must take all those points on board and action should be taken as soon as possible, especially before next year's Olympics. We must not forget the horrible effect that this tax has on the Caribbean countries.

7.52 pm

Lord Pendra: My Lords, those taking part in this short debate owe great gratitude to the noble Baroness, Lady Benjamin, for initiating it. As has already been shown, the air passenger duty is generally accepted within the tourism industry as an unfair tax in its current form. The Caribbean islands certainly have a very good case. I hope that their strong message will be listened to and acted on by the Government. The air passenger duty charge made to the Caribbean is greater than that to the west coast of the USA, but the distance is shorter. I am sure that the Caribbean islands will be making strong representations to the Treasury consultation which closes next month.

If that fact is recognised by the Government, surely the case for Crown dependencies off the coast of Normandy is equally strong. As the House knows, the Crown dependencies have long since pledged their

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allegiance to the throne and, although they do not form part of the United Kingdom, they are citizens who hold British passports and their laws are dependent on Westminster. Certain dependent territories of EU member states are included in the scope of the lower rate, including the Channel Islands and Gibraltar. However, even at those lower rates, the air passenger duty is not proportionate. For instance, the passenger pays the same tax on a flight from Jersey to Southampton as one who travels from Glasgow to Crete, irrespective of the age of the aircraft or fuel efficiency. Both have a £12 per passenger air passenger duty charge when flying economy class, yet the Crete route is 16 times the length of the Jersey flight. Surely any tax should be based on the emissions of the actual aircraft type, and tax should be banded by distance travelled. The negative economic impact of the air passenger duty has been well documented already in this debate. I just add that, in the case of the Crown dependencies, such as Jersey, the tax does not impact on holidaymakers alone. There is a significant diaspora in the UK who regularly travel to the island and local businesses are dependent on affordable flights to maintain important links with the mainland.

Will the Minister clarify what obstacles there are to making special provision for air passenger duty paid on flights to the Crown dependencies and overseas territories? Are there any constitutional or competition implications for making such special provisions? I look forward to receiving the Minister's response to that point.

7.55 pm

Lord Bradshaw: My Lords, I, too, congratulate my noble friend Lady Benjamin on securing the debate. As something of a newcomer to air passenger duty, it seems to me not only unfair but particularly unfair on the Caribbean. We have seen the industries on which they used to depend—the sugar and bananas, to which my noble friend referred, and other agricultural businesses—undermined by the agreements with the United States

and Europe to allow free competition in those markets. Having done that, we have dealt a double blow to them in the form of the air passenger duty.

I say that advisedly, because I believe that we have a particular duty to the people of the Caribbean. I well remember, in the early part of my career, how dependent the public services here—transport and hospitals—were on labour from the Caribbean, the people who came here to work. It is a pretty poor way to pay those people back as they get older to impose this unfair tax on them. When my noble friend Lord De Mauley sums up, he ought to find some way to show some concern for those territories, which have for so long been associated with the British Crown. That is essential.

7.57 pm

Baroness Dean of Thornton-le-Fylde: My Lords, I, too, congratulate the noble Baroness, Lady Benjamin, on securing this important debate. It is about the Caribbean that I want to talk this evening, but I must say that sometimes I sit here in astonishment. The air passenger duty was increased as a result of pressure for green taxes from the very party of which the noble

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Baroness is a member. The Lib Dems, and the green movement in the UK, want to restrict the expansion of aviation. Indeed, they are now joined by the Conservatives, who have placed a ban on any expansion of Heathrow and Gatwick, from which most of the Caribbean flights go. We need to be honest in this debate. Air passenger duty has not arrived from nowhere; it has arisen because the aviation industry has been under a lot of pressure. We have seen this from Questions in this House. There has been an anti-aviation attitude among many Members. Frankly, the aviation industry has not got its act together to put forward a defence of its industry.

The tax on the Caribbean is unfair; there is no doubt about that. It is unfair to say that you can travel to Los Angeles, as I do to visit family, when I see the make-up of the people on the plane—predominantly business travellers; and then go to Barbados, as I do, and see predominantly people who are family members, going on holiday, visiting their family or people who have retired here returning home. For those people to pay more in air passenger duty than those on a flight to LA is crackers. How on earth could the Treasury put in band B travel to the USA at a lower payment than travel to the Caribbean, to which, I suggest, we have a moral responsibility? They are part of our Commonwealth family.

I very much welcome the debate. The closing date for responses to the consultation is 17 June and I hope that the Treasury is inundated with submissions about this dreadful tax. There is no doubt that it does affect tourism. The Caribbean is the biggest tourist snare in the world. It is a place that people visit regularly. It does not have an alternative industry. If it does not have tourism many of the jobs in the Caribbean will go. I hope that the Government will listen to what is said in the debate and put it in the context of the Caribbean. If we are looking at abolishing air passenger duty, I rather fear that what will replace it will perhaps be substantially more damaging to the aviation industry.

There is another factor. We are talking about tourism and traffic to the Caribbean. What about traffic from the Caribbean? We have seen the airports of Paris, Frankfurt and Amsterdam continually take passengers from the UK. That is what people will do. They will fly into those airports, avoid the tax substantially and then come into Britain. That cannot be good for our economy. We are good at aviation in the UK. We are an island and will always need it. We need to consider this important debate introduced by the

noble Baroness, Lady Benjamin. These wonderful islands are caught up in a tax that frankly is unfair to them. I would suggest that they are also caught up in the bigger machinations in that we have not got our act together properly on aviation in this country. I should declare that I am a member of the NATS board but I see no conflict in taking part in this debate this evening.

8.02 pm

Baroness Howells of St Davids: My Lords, I too am grateful to the noble Baroness, Lady Benjamin, for introducing this debate and for giving such a thoughtful and thorough lead into it. The topic has generated much discussion in the British Caribbean community

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and has led to a certain amount of feeling that it is being put upon. I will try to explain, but before doing so, I draw attention to two Members of this House who have participated in debates on this subject before. First, the noble Lord, Lord Lee of Trafford, drew the then Minister's attention to a report by Deloitte and the tourism industry, which the then Minister confessed to not having seen. Secondly, on 11 January 2011, the noble Lord, Lord Newby, asked:

"Is the Minister aware that the APD is seen as particularly unfair on the Caribbean? Will he ensure that as part of the review which the Government are undertaking, particular attention is given to the ... Caribbean, not just on the tourist industry",

but on the diaspora, which is increasingly important to the economic activity on the Caribbean islands? The Minister replied:

"The Caribbean Tourism Organisation has produced a very helpful report as a contribution to the debate",

on the territories of the Caribbean. He felt that he had sufficient information on the strength of feeling in the Caribbean. He went on to say that,

"under the Chicago convention we have to have an objective basis for distinguishing between one country and another".- [*Official Report*, 11/1/11; cols. 1289-90.]

It is on that objective basis that I would like to address the House by giving a potted history. The people of the Caribbean, despite being the descendants of enslaved Africans, have never faltered in their loyalty to Britain. To date they have never received compensation, but they have given loyal support to Britain in its times of need. I came to the UK in 1951. I realise that some of you were not born then, but you may take my word for it: the country was still reeling from the effects of World War II. Britain had lost the cream of its youth-18 to 35 year-olds had died in the war, in those battles that we sometimes try to forget. The transport system, the catering industry, manufacturing, and the health and social care services were all run by people past retirement age.

The call went out to the Caribbean from Britain, saying, "Support the mother country". I witnessed that pull from the Caribbean. They came willingly and, despite vulgar prejudices, worked hard to keep the machinery of this country going. To placate the populace, the Government changed their language from the mere invitation they had sent, and promised the British that people from the Caribbean would only do the jobs that white people did not want to do. That was not factually correct, but we let it go. There were posters in the Caribbean of Beefeaters standing on the cobble-stones of the

Tower of London with the slogan, "The mother country needs you". True, people were glad of regular wages, but their *raison d'être* was to help Britain.

Today I ask the Minister to give us some hope that the Government will help the people from the Caribbean. Their children and grandchildren, at a time of economic crisis, are being asked to pay an unjust tax to visit relatives in the Caribbean. They mostly go there when there is trouble, such as a hurricane, or when somebody has died. Is it fair and just that we should penalise them? The smallest and poorest islands, where cocoa, sugar and bananas have lost out in the European competitive jungle, are now again being held to ransom. The Caribbean Governments are not refusing to pay

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the tax; all they insist on is that the Caribbean gets a fair share. We are asking you to use the first port of call in the Caribbean-Bermuda. We will pay the tax for Bermuda but please remember: when you needed us, we were there. We need you now.

8.07 pm

Lord Tomlinson: My Lords, I, too, congratulate the noble Baroness. She has achieved unanimity from the Liberal Democrat Benches in this House, which I think her party leader must have been hoping for in his more controversial efforts yesterday.

The Caribbean has suffered grievously in recent years, partly because of national disasters that wiped out sugar crops, which had an ongoing effect on the rum industry. Then there was the harsh treatment by the World Trade Organisation in its judgment on Caribbean bananas, which were discriminated against in favour of the Latin American bananas, which had much greater clout with the American Administration. Today, we have the first real glimmer of hope. My experience tells me that Chancellors of the Exchequer do not make the sort of concession that they made in the Budget when, on 23 March, the Chancellor talked about a consultation document and a review of the structures of the existing banding. Certainly, Chancellors of the Exchequer do not normally forgo a tax in a year when they had not given notice of it. Chancellors usually want to take credit several times over, but this came as a surprise to everybody.

With this unanimity we have the circumstance in which there must be a multiplication of the pressure on the Government to deliver on what most people have accepted is three-quarters of the way towards making a promise. That is certainly how I interpret the Chancellor's views. I had the opportunity to speak to Bruce Golding, the Jamaican Prime Minister, about this some time ago, who left me in no doubt of the importance of these decisions, not only to the Jamaican economy but across the Caribbean.

If we look at a couple of the annexes that were provided for us by the Caribbean organisations, we will see the percentage of export revenue raised through tourism. I shall not go through the list but will pick out one or two examples. For Antigua, the figure is 62.7 per cent; for Aruba, 64 per cent; for the Bahamas, 63.4 per cent; and for countries such as Grenada, 66.2 per cent. Every one of them is devastated at the impact of this threat to the major dollar earner in their economies.

There is something almost obscenely counterproductive in this tax. On the one hand, we find various forms of aid to help many of these countries and, on the other hand, we take a decision which appears in domestic terms to be almost insignificant but which has a far more devastating effect on the economies of these countries than can be offset by the aid that they receive.

The statistics have already been cited for Washington, which is 3,667 miles from here. The noble Lord, Lord Morris, cited Kingston in Jamaica, but that is by no means the most badly affected of the Caribbean islands. Antigua, for example, is affected more significantly. Therefore, I am grateful to the noble Baroness. I hope

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that we commit ourselves to the fact that the fight starts today and recognise that this is not its culmination. She has reinvigorated Parliament to take the fight to the Government.

8.11 pm

Lord Newby: My Lords, I apologise for speaking in the gap. I was incompetent in that I did not get my name on to the speakers list in time.

I am speaking tonight because I used to be an adviser to the Caribbean Banana Exporters Association and I now run an organisation which runs education programmes linked to cricket for eastern Caribbean countries.

Why does what happens in the Caribbean matter so much to us? After all, it comprises extremely small countries, many of them smaller than a London borough. It seems that there are three reasons, which have already been touched on in the debate. The first is the history. In these countries, the institutions, the language, the trade patterns and the law are essentially British. In considerable measure we have made these countries what they are today, and that is why they deserve a larger claim to our interest and concern than many other larger countries with which we have no equivalent links. Secondly, as we heard from the noble Baroness, Lady Howells, and others, the Caribbean diaspora in the UK is directly and adversely affected by the current APD situation. Thirdly, these links have a downside. The collapse of the banana industry has led to greater involvement in the drug trade in some countries in the eastern Caribbean, such as St Lucia and St Vincent, and many of those drugs find their way here.

Just about the only thing that these islands now have from which they can gain an economic advantage is tourism. Therefore, it is in our interests, as well as theirs, that the tourist industry flourishes. In my view, a number of developments are needed if that is to happen. The new international airport in St Vincent is an example, as well as one hopes a reliable inter-island airline. However, given the importance of the UK tourist trade to the region, the cost of air travel is clearly a key factor.

In answer to the noble Baroness, Lady Dean, I am a supporter of air passenger duty. It is a highly progressive tax. However, its differential application to the US and the Caribbean is both illogical and damaging. Therefore, rebanding is crucial. The Government's option 1, which would divide the world into short-haul and long-haul regions, is clearly the only one that would deal with this Caribbean problem. It also has the advantage that it would have an equivalent effect in a number of other countries—principally in sub-Saharan Africa, with which we have the same historical relationship as we have with the Caribbean.

8.14 pm

Lord Tunnicliffe: My Lords, I also congratulate the noble Baroness, Lady Benjamin, on bringing forward this debate. I celebrate the unanimity in the House tonight. Every contributor has spoken against the discriminatory nature of this tax and I share that view. I do not resile from APD. It was a tax that we carried

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throughout our period in government and it is a perfectly reasonable way of raising revenue. The airline industry is lowly taxed—it is zero-rated—and, because of an historical agreement in the 1940s, its international fuel is untaxed. Although APD is a perfectly proper tax, the present banding, on which I have to hang my head in shame and say that my Government were responsible, is discriminatory.

I first went to the Caribbean 45 years ago as an airline pilot. Thirty years ago, I was general manager for the Caribbean for British Airways, and I have taken an interest ever since, visiting it regularly.

The United Kingdom's history in relation to the Caribbean is pretty shameful. We are quite smug in this House about how we got rid of slavery but we forget that we invented it in 1564. Enormous fortunes were made out of the slave trade, principally from the Caribbean and the Americas, and it was not until 1838 that West Indian slaves were emancipated. During that period and subsequently, huge fortunes were made in this country from the sugar industry and its associated products. Throughout most of our history, this traffic has been one way. Even in recent times, as has been pointed out, the Caribbean has made an enormous contribution. Members of the Armed Forces came from the Caribbean to fight in the Second World War, and in the 1950s and 1960s its people contributed to our society by providing labour for the specialist industries, transport and sport and so on. That contribution has been invaluable. Those people triumphed through the hostility that they met, and they and their descendants now form a rich part of our life.

Since then, we have continued to let the Caribbean down. We did not help it to preserve its sugar industry or help its banana industry to survive. We have been very dismissive of its needs. We have recently given up our World Service output there and we are going to remove the Royal Navy presence.

It is time to listen to the Caribbean. It is time to think again about this unreasonably discriminatory tax and change it, and I hope that the Government will listen to what we are saying. These things happen because big organisations make little changes, and you cannot have more of a beast of an organisation than Her Majesty's Treasury. It makes little changes that have a disproportionate effect on little people, and the Caribbean islanders are little people. My favourite island, Antigua, is the size of a typical English constituency and eight out of 10 people there are involved in the tourist industry. A discriminatory tax in those circumstances is wrong and I hope that the Government will listen to what they have heard tonight. I do not ask the Minister to deviate from his Treasury brief. That would produce instant dismissal and the House would be poorer for his absence from the Front Bench. However, I hope that the passion expressed in the debate about the discriminatory nature of this tax will be firmly communicated to his colleagues in the Treasury. I hope that they will take account of this passion and that we will see an end to this discriminatory tax.

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8.18 pm

Lord De Mauley: My Lords, I join all noble Lords in thanking my noble friend Lady Benjamin for calling this debate on what is a very important issue. She and other noble

Lords have made a number of powerful points. I say, first, that the coalition Government more than recognise the importance of the strong ties that exist between the United Kingdom and the Caribbean countries and strongly welcome them. I think we can all agree that the relationship provides real, tangible and important benefits.

More generally, it is worth reflecting on the important role that aviation plays in the economies of developing nations. It enables them to trade more effectively with the rest of the world, attracting foreign investment and stimulating economic development. For many developing nations, too, tourism is a major industry, and it relies on good air links with countries such as ours—a point made by several noble Lords. I take issue with those who claim that air travel is a luxury only to be enjoyed by the better-off. The truth is that for many ordinary people who fly each year to visit family and friends abroad, it is anything but a luxury. Several noble Lords referred to that. As my noble friend said, those who travel home to the Caribbean are among our lowest paid, so we clearly recognise that we need to have regard to the way in which air passenger duty affects them. Furthermore, I agree with my noble friend Lord Bradshaw and the noble Baroness, Lady Howells, that the Government wholeheartedly recognise, and are grateful for, the service that people from the Caribbean have given to this country over very many years.

Before outlining the Government's plans in this area, I would like to give some context. The first and most obvious point to note is that the APD system we are debating today was, as the noble Lord, Lord Tunnicliffe, generously acknowledged, bequeathed to us in its current shape by the previous Government. My noble friend Lady Benjamin makes the point that the Caribbean diaspora are agreed that they were not consulted and their views were not taken into account before the decision was taken. The Government recognise the deep frustration felt about the way in which the 2009 changes were implemented, without proper consultation. Perhaps I may return to that issue.

However, the problem with air passenger duty is not the only problem that we inherited. I shall not go over old ground this evening but simply reiterate that, having taken some tough budgetary decisions last year, this country still has to raise through borrowing £120 billion more than it will raise through taxes. The noble Lord, Lord Morris of Handsworth, suggested that when the APD was introduced in 1994, it was presented as a green tax. I respectfully suggest to him that it was the previous Government who allowed it to be characterised as a green tax. When it was first introduced in 1994, it was explicitly introduced on the basis of raising much-needed revenues for the Exchequer. That is the fundamental purpose of APD, and the Government's view is that the debate should be in terms of how to deliver the most fair, simple and efficient APD system possible. Faced with this serious economic challenge we simply cannot afford to reverse

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some tax rises, such as APD, which were announced by the previous Government. That said, the Government have been and are listening, and they did what they could at the Budget with the announcement of a freeze in APD for the current fiscal year. Fully aware of the wide range of views on this issue, the Chancellor also announced an important consultation on APD at this year's Budget, as several noble Lords mentioned. This provides a real opportunity to take a fresh look at the tax to see whether we can improve on the current structure.

My noble friend Lady Benjamin referred to the report of the Caribbean Tourism Organisation, and I know that the Economic Secretary was grateful to receive its report before Christmas. The consultation offers a chance to submit further evidence of this kind, which can only help to boost the case for reform.

Your Lordships understandably ask: what is the Government's approach? Partly in answer to my noble friend's comments about the importance we place on our own UK tourism industry, and the contradiction she suggests in placing those of other countries at risk, let me first say what the Government's objectives are for any possible reform of air passenger duty. In three short words, it is fairness, simplicity, and efficiency. We want an APD system that is fair to everyone. This means, in particular, that we will look again to see whether we can modify its structure in a way that avoids the current unfairness for countries like the Caribbean nations which-as my right honourable friend the Chancellor noted, and as several noble Lords have said today-although they are not as far from the UK as California, are subject to a higher rate of APD. But fairness also demands that aviation should contribute to the general finances of the nation. That means that there will be a continuing role for APD as a source of general government revenues in the future. The noble Lord, Lord Tunncliffe, and my noble friend Lord Newby acknowledged that.

My noble friend Lady Benjamin referred with justification to the encouragement given not that many years ago to the Caribbean nations to invest in tourism, and to the economic effect which is now compounding the downturn with a knock-on impact on employment; crime; drugs, as mentioned by my noble friend Lord Newby; and prostitution. We absolutely recognise that these are not wealthy countries; indeed, their dependence on tourism is clearly acknowledged in the Government's consultation document published in the Budget. The Government are looking at the matter very seriously and I am confident that we will find a solution that is more just and equitable for countries like the Caribbean nations.

However, we should seek to raise such revenues in a way that has minimum impact on consumer and business decisions. That is why we also want a tax that is relatively simple, both for those who have to pay it and for those who are charged with administering it. In keeping with the Government's drive for economic growth, it is also right that we look to improve the efficiency of taxes wherever possible.

Let me also touch on another key priority for the Government in this area-the environment. There should be no doubt that the Government are committed to ensuring that aviation bears its responsibilities for reducing harmful emissions, both in terms of global

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carbon dioxide and local environmental pollutants. However, we need to go about this sensibly. The right approach to tackling CO2 emissions from aviation is through the EU emissions trading system, which promises to deliver emissions savings in a co-ordinated way and at the least cost to the economies of Europe.

Looking ahead, my noble friend Lady Benjamin pointed out that the ETS will be added on top of an already high air passenger duty. I can say that APD and ETS will be considered in the round, but I will ensure that concerns are reported back to the Treasury. The Department for Transport's recently announced scoping exercise for developing a sustainable framework for UK aviation will also address the local impact of aviation. The United Kingdom is working closely with it to build consensus for an effective approach to tackling such emissions. My noble friend also mentioned the fact that Caribbean sea levels are already rising, which is having a further effect on tourism. We recognise this as a serious challenge for those nations and for all of us. These issues are being discussed, for example, within the United Nations, and the United Kingdom Government are committed to helping developing countries meet the challenge of climate change, including through appropriate financial support.

The Government's proposals for APD are set out in considerable detail in the consultation document published at the time of the Budget. This includes more on the Government's views and specific options for possible reform of the structure of the tax. The key proposals in the document offer a way of simplifying APD and dealing with the problems that have afflicted the previous Government's changes. In making the system fairer, the Government propose to go further by incorporating flights that currently escape the APD charge entirely. I refer specifically to the Government's consultation plans to extend APD to private business jet flights, with which the noble Lord, Lord Palmer, among others, takes such issue.

My noble friend Lady Benjamin asked what advice we had taken from the Department for Transport. I am sure that she will be aware that government departments work closely together on these matters, and this issue was discussed in regular meetings and in other discussions between the two departments in the run-up to the Budget. The noble Lord, Lord Pendry, asked about the unfairness specifically on the Crown dependencies. As I have made clear, the Government acknowledge that APD is not that fair. No banded system can be entirely fair to everyone, and the consultation offers an opportunity to look at these important questions again with an open mind.

In conclusion, I again thank my noble friend Lady Benjamin for securing this debate and all noble Lords for their comments. I can assure them that all their contributions will be taken into account in the consultation. Indeed, the Government welcome responses from all those who wish to contribute. The APD consultation runs to Friday 17 June, as the noble Baroness, Lady Dean, pointed out. I trust that noble Lords will study the proposals contained in the Budget document and encourage those with an interest to respond, so that together we can deliver an APD system that is sustainable for the long term.