



The Rt Hon Theresa May, MP
Prime Minister
10 Downing Street
London
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15th November 2017

Dear Theresa,

As I made clear when we met on 30 October, the devolution of Air Passenger Duty (APD) remains an issue of great importance for Wales. This matter has received detailed considerations from the independent Holtham and Silk Commissions, which both recommended that APD should be devolved to Wales.

In February 2015, as part of the St David's Day Agreement on the future of devolution in Wales, the UK Government announced that it would consider the case for devolving APD to the National Assembly for Wales. The Treasury subsequently consulted on options for supporting English regional airports from the impact of APD devolution and concluded, in the autumn of 2016 not to devolve APD to Wales; however, it confirmed that it would *continue to work closely with local stakeholders to discuss any relevant further evidence or analysis*.

On 29 March 2017, David Gauke MP, former Chief Secretary to the Treasury, wrote to Mark Drakeford AM, the Cabinet Secretary for Finance, confirming that the UK Government's decision not to devolve APD to Wales was based on the responses to the Treasury's consultation and on HMRC analysis. He explained the reasons for the UK Government's decision as follows:

We consider that South Wales and South West England are an integrated aviation area: if there were meaningfully different APD rates at Bristol compared to Cardiff, we believe that there would be a significant loss of flights at Bristol, which would more than outweigh any increase in flight numbers at Cardiff. Passengers across the integrated aviation area would therefore see a net loss of connectivity from airports that are conveniently located for them. We believe this would cause unjustifiable

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

disadvantages to Bristol, and we also believe that it would not be in the interests of passengers in the South Wales or South West England area.

In light of that explanation, and the Treasury's commitment to discuss further relevant evidence, we have undertaken detailed work to develop the evidence base to inform APD tax policy in Wales. In particular, we commissioned external independent experts to examine the potential market, competition and economic implications of devolving APD to the Welsh Government and I attach copies of that detailed analysis for you to consider, which I formally launched and published last week.

The new independent analysis reveals that, contrary to the evidence upon which the Treasury's decision was based, Cardiff and Bristol airports operate in largely distinct catchment areas for short haul flights. In respect to long haul routes, the analysis shows that there is potential to sustain a long haul market from the catchment area which incorporates a wider travel time including Wales and the South West of England. This new analysis provides compelling evidence of wider choice for passengers and considerable economic benefits for both South Wales and the South West England regional economy from developing new routes from Cardiff. The impact of devolving APD to Wales (and subsequent reductions in APD at Cardiff), would have a negligible impact on Bristol airport.

The UK Government's failure to devolve APD continues to place unjustifiable constraints on our ability to promote Wales to overseas markets and support growth in the aviation sector and wider economy. These are important Welsh Government priorities and ones which I had hoped the UK Government would support. With APD already devolved to Northern Ireland and the commitment given to devolve APD to Scotland the UK Government is undermining our economic position compared to our colleagues in other devolved administrations.

The Cabinet Secretary for the Economy and Transport held a meeting with prominent figures in the aviation, tourism and business sectors in Wales to discuss this new evidence. Support for the devolution of APD was unanimous, and discussions highlighted the need for Wales to be open for business across international borders. While they welcomed the growth in routes from Cardiff airport, they confirmed that having the tools to vary APD could support additional routes for the benefit of the regional economy. It is clear from these discussions that APD is negatively affecting businesses within our economy and its reduction or removal would be a stimulus to enable competition within the industry and overall economic growth. I have already made a commitment that, if devolved, I would reduce the tax. It is also clear, from the experience of other nations which have already reduced or removed APD, that the catalytic economic benefits on the region, as a result of abolishing the tax, would far outweigh the current level of return for UK Treasury.

Devolving APD would open up options for better connecting Wales' economically remote areas with transport and business hubs, so helping investment and business. The demand for air travel will continue to grow. By helping to make Cardiff airport more attractive to airlines, devolution of APD can contribute to the increased capacity that is needed to serve that growing demand. This is good for Wales, certainly, but it also contributes to a more rational UK aviation strategy, and supports the core principles of the recent Industrial Strategy green paper – to support and develop the growth of the UK's regions.

It is important we take a robust and transparent approach to the development of tax policy and the consideration of further devolution to Wales. This requires joint work with the UK Government. In line with the UK Government's commitment to consider new evidence, I stand ready to work with you and with the relevant stakeholders to review this new analysis and your position on the devolution of APD to Wales. I look forward to your confirmation that

the Treasury, likewise, will work closely with Welsh Government on reviewing its position on this matter.

I am also aware that various proposals for re-structuring APD have been looked at in the past, including revenue neutral options such as introducing an additional premium at congested airports like Heathrow and Gatwick that can then be used to discount the level of duty at other airports. In the context of the UK Government's current Aviation Strategy review, where significant emphasis was placed on maximising the use of existing airport capacity around the UK to help make up for any shortfall until a new South East runway is built, I believe there is a strong case for these options to be revisited and I would welcome the opportunity to work with you to explore this in full.

I am copying this letter to the Chancellor of the Exchequer and the Secretary of State for Wales.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carwyn Jones', written in a cursive style.

CARWYN JONES