Centre for
Cross Border Cooperation

Briefing Note on Air Passenger Duty and the Derry to Dublin Air Route

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About the Centre for Cross Border Cooperation

The Centre for Cross Border Cooperation,[1] based in Armagh, Northern Ireland, has a strong reputation as an authoritative advocate for cross-border cooperation and as a valued source of research, information and support for collaboration across borders on the island of Ireland, Europe and beyond. The Centre empowers citizens and builds capacity and capability for cooperation across sectors and jurisdictional boundaries on the island of Ireland and further afield. This mission is achieved through research, expertise, partnership and experience in a wide range of cross-border practices and concerns.

Introduction

The 2020 *New Decade, New Approach* agreement, which brought about the restoration of the power-sharing government in Northern Ireland, contained within it the following commitment from the Irish Government:

> The Irish Government also intends to take forward a review of the potential for Government support to renewed viable air routes from Cork to Belfast and Dublin to Derry, working with the UK Government and Northern Ireland Executive to deliver improved connections as a priority (p.59).

However, on 22 October 2026, the Chair of the House of Commons Northern Ireland Affairs Committee, Tonia Antoniazzi MP, wrote to the UK's Chancellor of the Exchequer noting that 'the application of Air Passenger Duty to the Derry~Londonderry to Dublin route could threaten the viability of that service and significantly undermine its potential'.

This short Briefing Note offers an overview of recent developments relating to the restoration of the Derry to Dublin air route, why the route is liable for Air Passenger Duty, and what that could mean for its viability. It also sets out possible approaches to ensuring the route's future success is not undermined by the imposition of taxes that would make it less attractive to potential operators of the route.

Recent developments in the Derry to Dublin air route

In 2011, a daily service between City of Derry Airport and Dublin was withdrawn because the airline operating the service said 'it was no longer commercially viable without Irish government subsidies', as reported by the BBC. Until then the Irish Government had subsidised the route by deeming it a Public Service Obligation (PSO) route. In broad terms, a PSO is used as a legal requirement for an organisation to guarantee essential

[1] The Centre was established in September 1999 as the Centre for Cross Border Studies but began trading under the name Centre for Cross Border Cooperation in September 2024 when it celebrated its 25th anniversary.

services, with government funding provided to ensure their availability even when they aren't commercially viable.

The commitment made by the Irish Government in *New Decade, New Approach* to reviving the Derry to Dublin air route was reinforced in the 2025 Programme for Government. It stated that the Government would 'Engage with all relevant stakeholders to establish air connectivity between Dublin and Derry City airports' (p.79). The National Development Plan Review 2025 provided some further details, including a timeline:

> The Government is taking forward a commitment to establish air connectivity between Dublin and Derry to enhance connectivity for the North West of the island pending progress on an upgrade to the A5 road transport corridor by the Executive. This will be delivered through the introduction of a Public Service Obligation (PSO) air service for a defined period resourced through the Shared Island Fund, to commence in 2026 and be reviewed after an initial two-years. A market sounding exercise conducted by the Department of Transport will inform the terms of a tender for the PSO air service. The service will further improve transport connectivity for the North West on the island and internationally and support opportunities for economic growth and in-bound tourism (p.12).

In December 2025, the Minister for Transport, Darragh O'Brien TD, provided a written response to a question from Cormac Devlin TD regarding progress on the re-establishment of the route. The Minister assured 'that a tender for the PSO air service will be published by my Department early in the new year with a view to services commencing by October 2026, or earlier if operationally feasible'. By June 2026 the Minister was still referring in his written answer to a question from Louis O'Hara TD to 'services commencing on the route as soon as operationally feasible by the successful operator later this year'. However, in a more recent written answer (21 October 2026), his response had changed slightly, saying: 'It is intended that a contract will be awarded, following the successful completion of the procurement process later this year, to enable services to commence on the route as soon as operationally feasible by the successful operator'. The slight difference here is that although it is still envisaged that the procurement process will be completed in 2026, the service will commence as soon as operationally feasible after that, which does not necessarily mean 2026. The reasons for why the Derry to Dublin air service might not start in 2026 is what concerns us next.

The border between a PSO and Air Passenger Duty on the island of Ireland

The Minister for Transport's written response of 21 October 2026 offers some indications as to what has been challenging the original intention of having the Derry to Dublin air service in place before the end of 2026. He explains:

> As City of Derry Airport is outside of the European Union, the PSO air service will operate outside of Regulation (EC) 1008/2008, which provides for the common rules for the operation of air services in the Community. My Department has had extensive engagement with the Chief State Solicitors Office (CSSO) and the Office of the Attorney General in recent months, in relation to the appropriate legal framework to underpin the procurement. Detailed work is being undertaken to ensure that the Request for Tenders (RfT) is compliant with the appropriate procurement Regulation as well as EU State aid rules.

The challenge begins because the UK is outside of the EU. As a Member State of the EU, Ireland is bound by a set of common rules relating to the operation of air services (Regulation 1008/2008), which includes the principles for the use of PSOs to support air routes (Article 16) and the procurement procedures to be followed for a PSO route (Article 17). These rules, however, only apply to air routes between Member States of the EU, so they won't apply to an air route between Derry and Dublin. This is why the Irish Government is ensuring that what it wants to do won't fall foul of EU laws as it seeks to support an air route that goes outside the EU by adopting the principles of a PSO.

However, whilst it is highly likely that the Irish Government will be able to overcome these particular obstacles, the UK's position outside the EU presents a related challenge.

One of the underlying reasons for a government to support an air route through a PSO is to provide connectivity to a peripheral region that isn't seen as a commercially viable route for airlines. A PSO allows a government to exempt the air route from certain taxes that would otherwise make it less attractive to airlines considering tendering to service that air route. The EU's rules on PSOs allow for this, and so do the equivalent rules in the UK – but there's a border between them.

As it stands, flights from Derry to Dublin will be liable for the UK's Air Passenger Duty (APD) and, if the passenger purchases a ticket from Derry that involves a connection in Dublin to an onward flight elsewhere, this could also be liable for Air Passenger Duty. From April 2027, this would mean a passenger travelling to Dublin in the equivalent of economy class being charged £15.49 APD on top of the basic price for the ticket, and between £105.33 and £109.46 for a connecting flight from Dublin to a long-haul destination. The charges would be much higher if the passenger were not travelling in the equivalent of economy class.[2]

The same does not apply for travel in the opposite direction – from Dubin to Derry. This is not because the air route would be made possible through a PSO, but because the Irish government abolished its equivalent of Air Passenger Duty – the Air Travel Tax – in 2014. Importantly, however, this was not the case when the Derry to Dublin air route was operating previously. Before it was withdrawn in 2011, Ireland's Air Travel Tax had not been

[2] For further details, see HM Revenue & Customs guidance on rates for Air Passenger Duty.

abolished, but both the UK and Ireland were members of the EU, which meant both were under the EU's rules on PSOs and could agree to waive taxes they could otherwise apply to passengers on flights between Derry and Dublin (and vice-versa).

The UK's Finance Act 1994 sets out the rules on the charging of APD. These provide certain exemptions, including for when passengers are travelling on an aircraft that 'is being operated under a public service obligation imposed under Article 16 of Regulation (EC) No 1008/2008' (clause 29A(4)). This is the EU regulation referred to by Ireland's Minister for Transport in his written response of 21 October 2026 discussed earlier and might have suggested that the Derry to Dublin air route, as a PSO route, would not be liable for APD. Crucially, however, there is a major difference between how that regulation applies in Ireland and how it has been modified by the UK in the wake of Brexit.

Article 16(1) of the regulation as modified by the UK post-Brexit states:

> The Secretary of State, following consultation with the airports concerned, the Government of Gibraltar, if such an airport is located there, and air carriers operating on the route, may impose a public service obligation in respect of scheduled air services between an airport in the United Kingdom or Gibraltar and an airport serving either a peripheral or development region of the United Kingdom or Gibraltar, or on a thin route to any airport in the United Kingdom or Gibraltar, any such route being considered vital for the economic and social development of the region which the airport serves or of Gibraltar.

What this means is that under UK law a PSO can only be used for air routes starting and ending within the UK (and Gibraltar). As the Derry to Dublin air route crosses the Northern Ireland-Ireland border, UK legislation does not allow for a PSO to be used. Furthermore, as the Derry to Dublin air route is not a UK-recognised PSO air route, it is not exempt from Air Passenger Duty.

Imposing APD on flights from Derry to Dublin (and, in some cases, on onward flights from Dubin) undermines the very rationale for using a PSO to reinstate this air route. Its use indicates that government financial support is required to make the route commercially viable for an airline to operate it. The reinstatement of the Derry to Dublin air route is seen as a key element in supporting economic development in the North West of the island of Ireland, providing better connectivity for businesses in the region, and increasing the potential for tourism. However, by charging Air Passenger Duty it will make the route much less attractive to potential passengers and, therefore, a much less attractive proposition for an airline to operate it. In turn, this would deny the possibility of a major initiative that is seen as a driver for growth in the North West. Moreover, it is important to recognise that it would be the UK Government denying this possibility – one that the Irish Government is financing for the benefit of both jurisdictions on the island of Ireland; but this doesn't need to be the case.

Potential approaches to ensure take-off for the Derry to Dublin air route

Sent on behalf of the Committee, the 22 October letter to the UK Chancellor from the Chair of the Northern Ireland Affairs Committee called on the UK Government 'to remove Air Passenger Duty on the new Derry~Londonderry to Dublin air route', and 'to negotiate a Memorandum of Understanding with the Irish Government to ensure that all flights within the island of Ireland are exempt from Air Passenger Duty and equivalent taxes, to reflect the unique circumstances and opportunities that exist here'. The first request is specific to the Derry to Dublin air route, whereas the second has a wider application to the island of Ireland, which could be relevant to an air route between Cork and Belfast. In terms of the first, the letter also states that by imposing APD, 'The Treasury risks undermining a significant new opportunity for economic growth in the north west of Northern Ireland, for the sake of a very small amount of tax revenue'.[3]

These are very clear asks from the Northern Ireland Affairs Committee. Accommodating them will require political will and a recognition from the UK Government that its current position is blocking the fulfilment of a commitment made in *New Decade, New Approach*. It would be accurate to point out that this is an Irish Government commitment and not one made by the UK Government. However, *New Decade, New Approach* was the result of both governments' efforts, and it would be equally unhelpful if the Irish Government were to create obstacles in relation to commitments made by the UK Government. Therefore, in order for the UK Government to remove the obstacle resulting from the imposition of APD on the Derry to Dublin air route, the Centre for Cross Border Cooperation would ask the UK Government to consider the following potential approaches.

- If it is the case that APD needs to be imposed due to the current legislation, the **UK Government should in the immediate term introduce a mechanism whereby it would reimburse any APD charges on the Derry to Dublin air route**. This would allow the operator of the route to offer a discount to passengers equivalent to the APD charged.
- Section 31(4B) of the Finance Act 1994 states in relation to APD that 'A passenger is not a chargeable passenger in relation to a flight if under his agreement for carriage (whether or not it is evidenced by a ticket) the flight is to depart from an airport which is in a region of England, Wales or Northern Ireland designated by order'. Therefore, **in the short term the UK Government should consider designating by order that passengers are not chargeable for APD when departing from that region of Northern Ireland where the City of Derry Airport is located and where their flight is destined for an airport on the island of**

[3] It should be noted that the letter was informed by evidence gathered by the Committee as part of its inquiry into the taxation of the hospitality and tourism sectors in Northern Ireland, and that the letter also makes recommendations regarding VAT and the Electronic Travel Authorisation scheme. On the latter, see the Centre's Briefing Note on the Electronic Travel Authorisation scheme and the Windsor Framework.

Ireland. Alternatively, and bearing in mind that there are currently no equivalent taxes imposed by the Irish Government, the UK Government should agree a Memorandum of Understanding with the Irish Government to ensure that all flights within the island of Ireland are exempt from Air Passenger Duty, as recommended by the Northern Ireland Affairs Committee.

Conclusion

In order to ensure the viability and ultimate success of the Derry to Dublin air route, it is imperative that as a matter of urgency the UK Government takes the appropriate measures to ensure Air Passenger Duty is not imposed. Any delay in so doing will present a significant challenge to an initiative seen as key to the economic development of the region, and one that is being financed by the Irish Government.

Beyond this immediate priority, the UK Government should also introduce changes to the current UK legislation governing the use of Public Service Obligations (PSOs). The legislation should be amended to allow for the use of PSOs in the establishment of air routes between Northern Ireland and Ireland, whilst it should also explore with the European Union modifications to its equivalent legislation that would allow the same, in recognition of the unique circumstances on the island of Ireland referenced in the Windsor Framework.