

Air Passenger Duty – retain, replace, reduce, remove?

Mike Robinson

The Scottish Government's first air passenger duty forum meeting took place last week, involving a number of airline and airport representatives and tax experts. I was invited to attend to represent both Stop Climate Chaos and Scottish Environment Link, as I am a board member of both. The Scottish Government had previously stated an intention to halve and ultimately remove Air Passenger Duty (APD) – the tax charged per passenger on each flight in the UK, and the airlines had joined together to commission a report proving what a good idea this would be, so it was difficult to be optimistic about influencing this in favour of the environment.

The Transport Minister and Finance Secretary were jointly in the chair. The transport minister began with some statements about APD – that 'nobody believes this is an environmental tax' and that 'this is seen universally as a punitive tax'.

I don't know how much I agree entirely with these somewhat sweeping statements. The UK Treasury did state that APD was primarily a tax revenue raising scheme with a secondary environmental benefit. But it is an environmental tax in the sense that it may help inhibit the growing demand for air travel, which is essential if we are not to swamp our entire emissions 'budget' with aviation alone. Arguably it is not a very successful environmental tax, because despite its introduction in 1994 aviation levels have continued to grow. In 2014 according to the CAA, 'terminal passengers' were the equal highest ever at around 240 million passengers / year. Cargo has maintained a steady demand at around 2.5 Million tonnes a year, and is currently as high as it has been since 1994. And commercial flights, whilst down 10% on 2006 levels, are still 25% higher than they were in 1994. So aviation is still growing despite the tax.

Maybe this isn't that surprising. In a report in 2008 on the state of aviation in the UK, the CAA pointed out that several factors affect the demand for and cost of flying. The biggest is the cost of fuel. Then it includes factors like the wider state of the UK economy, the extra time it takes to clear security checks, and availability of alternative transport modes. And then there is APD. It's a factor but not the main one. It was hiked in 2008 and air passenger numbers, cargo tonnages and commercial flights all showed a significant decrease in 2009, but this dip was almost entirely a consequence of the financial 'crash' and was relatively short lived, and it is debatable how much impact the extra APD had. And since then, in all but the commercial arena aviation has bounced back to pretty much the highest levels ever.

So what about its 'punitive' status? The cost of APD is higher in the UK than almost anywhere else abroad and many countries don't operate such a tax, so maybe it is more punitive than it could be. But isn't every tax punitive from some perspective at least? And punishing whom? Environmentalists have long argued for something akin to a frequent flier tax, as a large amount of flying is by a small number of regular fliers who clearly have very significant carbon footprints,

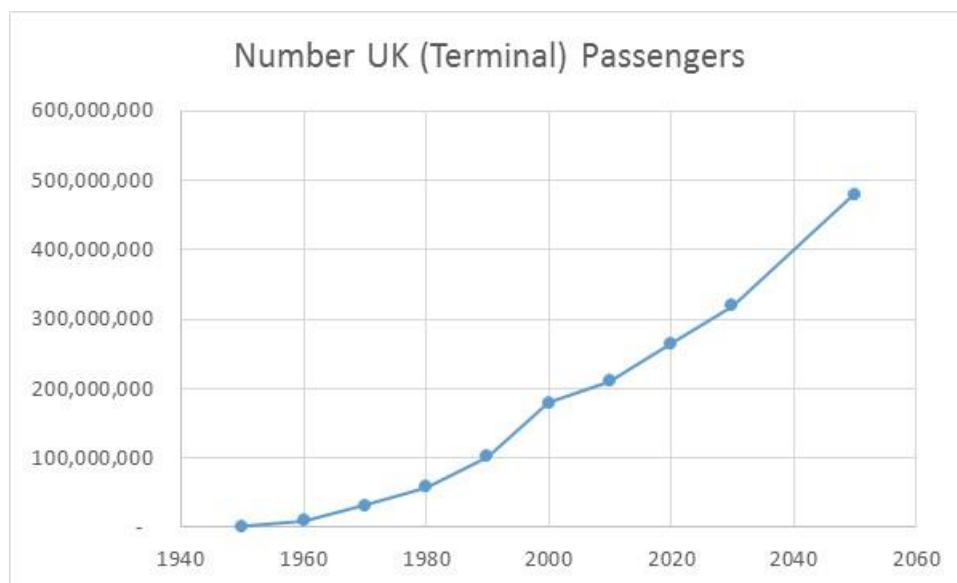
rather than those that perhaps fly once a year to go on holiday. Again the CAA reported in 2009 that the three main similarities shared by frequent fliers were 1. Household income over £115,000/year. 2. No children or current dependents. And 3. Owning a property abroad. Is it these people who are being punished? Or is it the airlines themselves?

The air routes which were most affected by APD and other changes were those where an alternative (usually regular train route) existed. Conversely, any change in APD is most likely to have a detrimental effect on these train routes, so clearly favouring a high carbon travel mode over a low carbon one. As it is aviation is competitively advantaged over rail travel by merit of not paying VAT on airfares and not paying tax on aviation fuel. So wouldn't the removal of APD domestically potentially be punitive to the rail industry?

The Finance Secretary then pointed out the other major factor in this discussion. APD currently raises nearly £3 Billion for the UK exchequer, probably around £230 Million of which is in Scotland and would be lost to the Scottish government when APD is most likely to be devolved next year, if it is indeed then scrapped. Short term there might be a slight advantage to Scotland having cheaper APD than England and Wales, generating a burst of extra business at the expense of Newcastle, Manchester and other regional airports, but it is difficult to see this lasting any length of time, and in fact the airline industry is in large part opposed to this differential charging within the UK. But irrespective of this, deciding during a period of austerity to simply give up £230 Million of tax revenue in the hope that it might generate more indirect income is a big gamble, however persuasive the PWC report commissioned by the airlines.

Despite the industry rhetoric, increasing flying does not always result in positive economic response in the UK. Money flows out as well as in, and in a rich nation like ours, it is common sense that this might not always be in our favour. In fact in a report by the Office for National Statistics in 2010 there were twice as many UK residents travelling overseas than tourists coming here (43m vs 21m passengers), which produced a hugely negative balance of payments of £15 Billion. This is not unusual; for every year since 1985 overseas travel, largely by plane, has consistently produced a negative balance of payments.

So should we sacrifice £230 million of public spending for the promised riches that may or may not flow? If APD is only one factor in five or six, would it singularly result in as big a boost to passenger numbers and flights as is predicted? And if it does, then how do we mitigate the likely added impact on our environment and our climate objectives? If air traffic continues to grow as it is forecast to, it will, according to the Tyndall Centre, single-handedly account for the entire UK emissions budget before 2050. Do we value it so highly that we are prepared to see every other area of our lives constrained in some way?



Flying is a significant contributor to climate change (particularly through carbon dioxide and NO_x emissions at high altitude), and despite efficiency improvements in aircraft design and practice within the airports (which are hoped to one day achieve as much as 15-20% efficiencies) it remains a significant factor. The DfT reported in 2012 that projected increases in flying will result in increases of carbon emissions from 33.3MtCO₂ in 2011 to 47MtCO₂ in 2050. Climate targets are based on a 1990 baseline, and my sense is that if we were to take a climate sensitive trajectory, we would ideally be aiming for 25-50% of these 1990 levels of aviation. Instead we have seen passenger numbers more than double since 1990 despite APD's introduction in 2004. And the current Civil Aviation Authority forecast, even without more runways being built (i.e. the 'constrained forecast') is for this to grow a further 50% by 2030, and more than double again by 2050.

There are of course few alternatives, especially to longer haul flights, but perhaps where alternatives do exist we should do more to encourage them. A high per cent of Scottish flights are to London and there are plenty of alternative ways to make this journey.

Is APD punitive? To some yes. Is abolishment affordable economically? It's hard to see how. But with the risk to the climate inherent in the ever growing demand for aviation, if APD is not an environmental tax, which most would say it is not, then maybe this forum should be focused on replacing it with something that is, rather than scrapping it completely.