

Response to the Scottish Government's Consultation on Air Departure Tax: an overall 50% reduction policy plan and an Environmental report

Scottish Environment LINK Economics Group

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Introduction

Scottish Environment LINK is the forum for Scotland's voluntary environment community, with over 35 member bodies representing a broad spectrum of environmental interests with the common goal of contributing to a more environmentally sustainable society. Its member bodies represent a wide community of environmental interest, sharing the common goal of contributing to a more sustainable society. LINK provides a forum for these organizations, enabling informed debate, assisting co-operation within the voluntary sector, and acting as a strong voice for the environment.

LINK works mainly through groups of members working together on topics of mutual interest, exploring the issues and developing advocacy to promote sustainable development, respecting environmental limits. LINK Economics Group members welcome the opportunity to comment on this consultation.

Consultation One: Policy for an overall 50% reduction in Air Departure Tax by the end of the current session of the Scottish Parliament

1. Do you support the Scottish Government's policy plan to reduce the overall burden of ADT by 50% by the end of the current session of the Scottish Parliament? Please answer 'Yes' or 'No'.

No.

2. Please explain your answer to question 1.

Members of Scottish Environment LINK strongly object to proposals to reduce ADT by 50%. Climate change is one of the greatest long-term threats to people and wildlife and proposals to reduce ADT are inconsistent with Scottish climate change ambition. Members of LINK are very concerned by Scottish Government's plans to deliver tax cuts in support of aviation growth and increased emissions given the impact this will have on climate change, the development of Scotland's low carbon economy, and the natural environment. Such a cut would:

- Go against climate change commitments and ambition;
- Result in a loss of public revenue urgently needed for investment in a transition to a low carbon economy;
- Negatively impact on the needed modal shift in transport;
- Have questionable impact on the economy.

Climate Change – reducing ADT goes against climate change ambition.

Aviation emissions were 1.6 MtCO₂e in 2014, 12% of total transport emissions¹, and by 2020, global aviation emissions are projected to be around 70% higher than in 2005 even if fuel efficiency improves by 2% per year². Flying is the most carbon-intensive form of travel. Someone flying from the UK to New York and back generates roughly the same emissions as the average person does heating their home for a year.

Transport Scotland suggests that a 50% cut in ADT would lead to annual aviation emissions increasing by between 87 ktCO₂e and 105 ktCO₂e³. This is considerably higher than the estimates that were used to support the 2016 *Consultation on a Scottish replacement to Air Passenger Duty*, which suggested an annual increase in emissions of 34 ktCO₂e to 60 ktCO₂e⁴.

The strategic environmental assessment⁵ suggests that these figures do not take into account that the burning of aircraft fuel has a ‘radiative forcing ratio’, meaning the total warming effect of aircraft emissions is likely to be 2.7 times greater than the carbon dioxide alone (IPCC⁶). Taking this into account, the increase in annual emissions should be considered as up to 283 ktCO₂e. It is also unclear if a further ‘uplift factor’ has been applied (in addition to calculating emissions by distance of journeys), to account for additional emissions associated with take-off, circling and ‘real world’ vehicle performance. This could be a further increase of 10%⁷, meaning the actual emissions increase could be up to 312 ktCO₂e per year.

The Scottish Government’s Low Carbon Behaviours Framework has, as one of its ten key behaviours, that the public should ‘(use) alternatives to flying where practical’. Any cut in APD will provide an incentive to a behaviour Scottish Government has said it wishes to discourage.

Members of LINK are strongly concerned that the proposals to cut APD are incompatible with Scotland’s climate ambitions as:

- No evidence is provided in the consultation that likely increases in carbon emissions are compatible with Scotland’s long-term or interim climate targets, or wider UK (non-statutory) targets to limit aviation emissions to 37.5 MtCO₂e by 2050.

¹ <https://www.theccc.org.uk/wp-content/uploads/2016/09/Reducing-emissions-in-Scotland-2016-Progress-Report-Committee-on-Climate-Change.pdf>

² http://ec.europa.eu/clima/policies/transport/aviation/index_en.htm

³ <https://www.transport.gov.scot/media/39426/sct06174537581.pdf>

⁴ https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty/user_uploads/apd---sea-screening-and-scoping-report.pdf-1

⁵ “It is also noted that there are a number of variables that are likely to influence the GHG emissions arising from increased aviation activity which are outwith the scope of this SEA to consider. These include [...] the effect that certain aviation emissions have at atmosphere, known as the multiplier effect, as the impact of this effect is uncertain” https://consult.scotland.gov.uk/fiscal-responsibility/air-departure-tax/user_uploads/sct0517439858-1_airtax_final.pdf page 122.

⁶ <http://www.ipcc.ch/ipccreports/sres/aviation/index.php?idp=64>

⁷ See p.50 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224437/pb13988-emission-factor-methodology-130719.pdf

- No detail is provided on how the Scottish Government may seek to compensate for increases in emissions in the aviation sectors or by requiring additional effort from other sectors (and the corresponding cost of those measures)

Reduction in ADT will result in loss in Scottish Government revenue

ADT contributes approximately £230 - £300 million per year and reducing this income by 50% represents a loss of revenue to the Scottish Government at a time that is crucial for investing in low carbon infrastructure. What's more, increases in aviation resulting from reductions in ADT will place demands for spending on aviation related infrastructure. Thus a reduction in ADT results in both reduced government revenue and additional spending requirements.

Members of LINK recommend that the Scottish Government use its powers over ADT to support delivery of its wider sustainable development objectives. The devolution of ADT to the Scottish Government represents a significant opportunity for a progressive approach to taxation to be adopted.

In addition to retaining ADT at current overall levels, LINK members suggest that a proportion of ADT revenue should be used to support delivery of the Scottish Government's sustainable development objectives, for example through supporting low carbon travel, and other efforts to mitigate climate change such as peatland restoration.

For example, an allocation of 5% of ADT revenue could deliver 17,000 additional hectares of peatland restoration per year⁸, supporting existing Government targets (i.e. not an offset mechanism) and potentially saving 1.7 million tonnes of CO₂e over ten years⁹, in addition to a host of other biodiversity and ecosystem benefits such as natural flood risk management.

Modal shift in transport: In order to deliver a sustainable and low carbon transport system, the Scottish Government needs to encourage a modal shift to low carbon travel alternatives.

Scottish Government policy should ensure that demand for aviation is tempered by lower carbon alternatives, which requires alternatives to be readily available and competitive in terms of cost, convenience and comfort. Accessible, high quality, low-carbon surface transport network, should be encouraged, in particular rail travel. *The Scottish Government should assess impacts of cutting APD on the rail sector.*

Should alterations to APD include cuts for short-haul flights for which there are rail alternatives (including to the Continent via the Eurostar), this is likely to significantly impact the rail sector. The SEA recognises that "changes to a Scottish APD could initiate modal shift. For example greater number and choice in short haul flights at a lower price could displace some rail movements."

It does not appear that any detailed impact assessment on the rail sector has been undertaken. Modelling conducted by Virgin Trains suggests that a third of the Edinburgh-London rail market could be lost if APD were removed, which could damage rail growth and future investment, including development of high speed rail. Rail investments that encourage modal shift are sorely needed,

⁸ Based on an average restoration cost of £880 per hectare estimated by ClimateXChange:

http://www.climateexchange.org.uk/files/6313/7348/7778/AFOLU_accounting_implication_for_peatland.pdf

⁹ Using an average figure of 10tCO₂/ha/yr. <http://www.iucn-uk-peatlandprogramme.org/peatland-code/code-information>

including better high speed routes. A 2012 study¹⁰ showed that maximising carbon benefits of high speed rail depends on modal shift from air to rail. The Scottish Government should be implementing measures to increase, not decrease, the competitiveness of rail travel in Scotland and between Scotland and the rest of the UK.

Impact on the economy

The consultation paper states that the reduction in taxation would lead to ‘increased air connectivity which would enhance business connectivity and inbound tourism and help generate sustainable growth’. The evidence supporting this is weak. Even though ADT is currently several times higher than equivalent taxes in neighbouring countries, there has been strong growth in UK aviation. This suggests that ADT is not a critical barrier to international connectivity.

Claims regarding benefits of APD cuts for tourism rely on increasing inbound tourism. However, the negative economic impacts of encouraging more outbound tourism must also be taken into account. This risk is noted in the recently published *APD Cut: A flighty economic case*¹¹. It is also consistently supported by Office for National Statistics figures which show that increased aviation is linked to a net deficit in payments (UK residents spending more abroad than overseas residents spending in the UK), estimated at £14 billion in 2014. The argument that Scottish business is held back by APD is not accepted. No independently commissioned evidence is put forward in support of this proposition. By contrast, one of the key findings of the above report is that “The case for business growth due to an APD cut appears particularly weak as business flights are driven by need and time pressures rather than price.”

Additionally a report by RSPB, WWF-UK and HACAN¹² shows, firstly, very weak evidence on a causal link between connectivity and economic growth; and, secondly, that the causal link between aviation activity and economic growth is less strong for developed countries and that it is not clear whether benefits of such growth are truly additional, or at the expense of surrounding regions.

3. If you answered ‘Yes’ to question 1, please provide any suggestions you may have on the most effective way, in your view, in which a 50% reduction in the overall ADT burden should be applied across tax bands and tax rate amounts in order to achieve the Scottish Government’s overall connectivity and sustainable growth objectives.

For example, should: (a) all of the ADT reduction only be applied to short-haul flights; (b) all of the ADT reduction only be applied to long-haul flights; (c) ADT be reduced equally by 50% across all flight types; (d) some other differential combination be applied?

N/A

4. Please provide any other comments you have on the policy plan.

Scottish Government should ensure that aviation is subject to a fair tax framework, which reflects its environmental and social impacts.

¹⁰ <http://www.cpre.org.uk/resources/transport/rail/item/3081-the-carbon-impacts-of-high-speed-2>

¹¹ Dalzell, C. (2016) published by Common Weal

¹² http://www.aef.org.uk/uploads/CE_Delft_2013_Aviation_Policy_Development_Framework.pdf

The consultation refers to ADT as a ‘burden’ on aviation, and describes it as “one of the highest taxes of its kind in the world”. We consider this to be misleading, given the UK aviation industry is widely understood to be significantly under-taxed compared to other sectors. It does not pay fuel duty or VAT, which together are estimated to be worth at least £10 billion per year¹³. (This is likely to be an underestimation given that VAT has increased and air travel expanded since the study was undertaken). ADT as it currently stands only compensates for a small proportion of this gap (approximately £3 billion at UK level), therefore cuts to ADT in Scotland would further increase this already considerable tax exemption.

This favourable tax position continues to be granted despite the externalities associated with air travel which result in costs to society; including air and noise pollution (with associated health impacts), cost of climate mitigation, biodiversity impacts of airport expansion, and costs of infrastructure and traffic congestion around airports.

The Scottish Government has commissioned “a range of impact assessments” relating to ADT reduction, but it is not clear what these assessments cover, and whether they will address social impacts and the differential impacts of the tax cut.

Consultation Two: An assessment of the likely significant environmental effects (SEA Environmental Report)

- 1. What are your views on the evidence set out in the Environmental Report that has been used to inform the assessment process? (Please give details of additional relevant sources).**
- 2. What are your views on the predicted environmental effects as set out in the Environmental Report?**
- 3. Are there any other environmental effects that have not been considered?**

The SEA states that it “has not been possible to consider” the impacts on modal shift of a reduction in air departure tax. Modelling conducted by Virgin Trains suggests that a third of the Edinburgh-London rail market could be lost if APD were removed, which could damage rail growth and future investment, including development of high speed rail. Rail investments that encourage modal shift are sorely needed, including better high speed routes. A 2012 study¹⁴ showed that maximising carbon benefits of high speed rail depends on modal shift from air to rail.

4. Do you agree with the conclusions and recommendations set out in the Environmental Report?

The ER suggests that there will be emissions increases in the short term, but that it is “more challenging to predict the implications of any increase in greenhouse gas emissions and the significance of these in the medium to long-term.” As it is currently written, the ER gives the impression that greenhouse gas emissions will increase in the short term only. To rectify this, and to address the uncertainty in the modelling, likely emissions for subsequent years should be given as a range, with an indication of the confidence of the estimates.

¹³ <http://www.aef.org.uk/downloads/HiddenCost.pdf>

¹⁴ <http://www.cpre.org.uk/resources/transport/rail/item/3081-the-carbon-impacts-of-high-speed-2>

5. Please provide any other comments you have on the Environmental Report.

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