

**Response to Scottish Government consultation on Air Passenger Duty**

**Scottish Environment LINK's Economics Group**

**June 2016**



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. 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.

Scottish Environment LINK's Economics Group welcome the opportunity to respond to the consultation on APD.

**Key points**

- The proposed reduction in the APD tax burden is inconsistent with Scotland's climate commitments. The Scottish Government's assessment shows it may increase emissions by up to 60,000 tonnes CO<sup>2</sup> per year, at a time when we need action to decrease emissions from air travel.
- Reducing APD would predominantly benefit higher income groups as they fly more than lower income groups.
- Aviation is already under-taxed compared to other more sustainable and accessible forms of public transport.
- There is no independent evidence to back up the Scottish Government's claim that APD is a significant barrier to increasing Scotland's international air connectivity, or that cutting APD would provide a net benefit to the economy.
- Cutting APD, which brings an estimated £230 - £300m per year to the Scottish Government at a time of austerity cuts and whilst funding is urgently needed to facilitate the low carbon transition, directly contradicts the Scottish Government's social and environmental goals.

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### Comments on the consultation process

- The consultation is taking place after a commitment has been made to cut APD whereas it is possible that an objective assessment will conclude that APD rates should not be cut.
- The APD stakeholder forum is heavily weighted in favour of participants who have a vested interest in seeing APD reduced/removed. There is no representation from the rail industry even though it is likely to be significantly affected by the proposals.
- Research referred to on economic benefits was commissioned by the beneficiaries of any reduction to APD.

### The proposed cut to APD is not in line with Scotland's climate commitments

The scientific consensus on the causes of climate change is incontrovertible and the need for immediate strong action to reduce emissions is accepted. In line with the Paris Agreement, Scotland should play its part in this global challenge by pursuing efforts to limit the temperature increase to 1.5° C.

Air travel is responsible for 13% of Scottish transport emissions. It is the highest emitter of carbon dioxide per passenger kilometer, especially for domestic flights and is the only sector where emissions have risen significantly over the past 20 years<sup>1</sup>.

Proposed plans to reduce and then scrap Air Passenger Duty (APD) are not in line with Scotland's legal commitments on climate action, as set out in the Climate Change (Scotland) Act 2009. With Air Passenger Duty (APD) soon to be devolved to the Scottish Parliament, we believe these new powers must be used as a financial incentive to reduce overall climate emissions from air travel.

In their most recent report<sup>2</sup>, the Committee on Climate Change called on the Scottish Government to "assess the carbon impact of any proposed changes to APD". Scottish Government analysis of a 50% cut in APD<sup>3</sup> shows an estimated consequential increase in climate emissions of the equivalent of up to 60,000 tonnes CO<sup>2</sup> per year. Whilst APD was never intended as an environmental tax, and indeed it could be replaced with more environmentally sensitive alternatives, reducing APD would make achieving the ambitions of the Scottish Climate Change Act more difficult. The Scottish Government has not said which sector of the economy would have to make increased effort, to make up for increased aviation emissions, and what cost this would place on the public purse.

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 to APD will provide an incentive to a behavior Scottish Government has stated it wishes to discourage.

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<sup>1</sup> Scottish Transport Statistics 2014, Transport Scotland, [www.transportscotland.gov.uk/statistics/j357783-00.htm](http://www.transportscotland.gov.uk/statistics/j357783-00.htm)

<sup>2</sup> Committee on Climate Change, *Reducing emissions in Scotland, 2015 Progress Report*

<sup>3</sup> Transport Scotland, *Estimate of the Impact on Emissions of a Reduction in Air Passenger Duty in Scotland, 2014*, [www.transportscotland.gov.uk/report/j340458-01.htm](http://www.transportscotland.gov.uk/report/j340458-01.htm)

### **Reducing APD would predominantly benefit higher income groups**

Propensity to fly increases with income and socio-economic group<sup>4</sup>, and 15% of the UK population take over 70% of all flights. Scotland's lower income groups will not particularly benefit from a cut to APD, while higher earners will enjoy a disproportionate benefit.

A cut to APD, without any robust replacement, will demonstrate a willingness to reward higher emitters and higher earners. Furthermore, cutting APD, which will bring an estimated £230 – 300m per year to the Scottish Government, at a time of austerity cuts and whilst funding is urgently needed to support Scotland's low carbon transition, directly contradicts the Scottish Government's social and environmental goals. We believe that maintaining APD should, with new powers coming to Scotland, allow the financial proceeds to be re-invested in more equitable, low-carbon travel which is used by a wider section of the population, such as rail. Changes to Scotland's tax regime should demonstrate a commitment to social justice and achieving low carbon behavior.

### **Aviation is already under-taxed compared to other more sustainable and accessible forms of public transport**

Airfares are not subject to VAT and aviation fuel is tax-free. A 2003 study<sup>5</sup> found that implementing fuel duty at the same rate as private fuel tax would result in £5.7 billion of revenue at UK level, adding VAT to tickets would result in £4.0 billion, and the abolition of duty free, £0.4 billion; suggesting that the aviation industry benefits from an annual tax exemption of at least £10 billion. This is likely to be an underestimation given that VAT has increased and air travel expanded since the study was undertaken. 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.

Rail travel does not enjoy the same tax privileges and, as a result, it is difficult for train ticket prices to compete with the equivalent air miles. According to the Scottish Government's analysis of the effect of cutting APD by 50%, more than half of the annual passenger increase would come from passengers flying within the UK, at the expense of train travel - a lower carbon and more sustainable mode of transport.

### **Impacts on business, tourism and international connectivity**

Scottish Ministers argue that APD acts as a barrier to Scotland's ability to secure direct international routes, and that APD is a barrier to Scotland's international connectivity. However, no evidence is provided to support this proposition.

In fact, Scottish air passenger numbers have continued to increase year on year since 2010, following a dip clearly tied to the recession, with the latest figures totaling over 23m passengers from Scottish

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<sup>4</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/336702/experiences-of-attitudes-towards-air-travel.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/336702/experiences-of-attitudes-towards-air-travel.pdf)

<sup>5</sup> The hidden cost of flying by Brendon Sewill. A 2003 report by Volterra, produced for BAA had similar conclusions.

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airports, a 4.7% increase on the previous year<sup>6</sup>. Over 18 international routes from Scottish airports have been newly launched or extended in the past year<sup>7</sup> and not a single discontinued route, of which there are few, has been attributed to APD.

Further propositions of the consultation are that an APD cut would bring benefits for business and tourism. Tourism figures for Scotland confirm there were 15.5 million overseas and domestic visitors to Scotland in the year to September 2015, a rise of 7%. 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* by Dr Dalzell (published by Common Weal). It is also consistently supported by ONS 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.”

Scottish Environment LINK’s Economics Group is of the opinion that the above arguments demonstrate that there is no case for reducing or removing APD. Indeed to do so would be entirely inconsistent with both the Scottish Government’s ambitions to be a ‘climate leader’ and their emphasis on social justice. LINK’s Economics Group would like to see a transition to a low carbon and sustainable economy and to cut APD would be seen as a step in the wrong direction.

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<sup>6</sup> <http://www.transport.gov.scot/statistics/j357783-16.htm>

<sup>7</sup> <http://www.scotsman.com/news/what-are-scotland-s-newest-flight-routes-1-4041976>

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