



Stop Climate Chaos Scotland

Response to Scottish Government consultation on Air Passenger Duty (APD)
June 2016

Key points

- The proposed 50% reduction in Air Passenger Duty (APD) is inconsistent with Scotland's climate commitments. The Scottish Government's assessment shows it may increase emissions by up to 60,000 tonnes CO₂e per year, at a time when we need action to decrease, not increase, emissions from air travel.
- Aviation is already significantly under-taxed through exemption from fuel duty and VAT. This is why APD was introduced. The UK aviation industry continues to benefit from tax exemptions of several billion pounds per year.
- There is no independent evidence that cutting APD would provide a net benefit to the economy. In fact, cutting APD could result in a net loss of income resulting from reduced domestic tourism.
- There is no independent evidence that APD is a significant barrier to increasing Scotland's international connectivity. The Government's own analysis of a 50% cut suggests that more than half of the passenger increase would come from people flying within the UK, where rail alternatives exist.
- 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.

SCCS strongly urges the Scottish Government to take the opportunity to use these forthcoming new powers in a way that strengthens Scotland's action on climate change, and to:

- 1. Cancel their plans to cut the overall level of APD by 50%, and maintain the overall tax burden of APD at existing levels.**
- 2. Bring forward new proposals for using new APD powers in a way that reduces climate change emissions from the aviation sector.**

Introduction

Air travel is responsible for 13% of Scottish greenhouse gas emissions from the transport sector, despite the fact that half of the population do not fly in any given year. It is the highest emitter of carbon dioxide per passenger kilometre and the only sector where emissions have risen significantly over past 20 years¹. With new powers on APD coming to the Scottish Parliament, now is the right time to consider how Scotland can best reduce, not increase, climate emissions from all sectors including aviation.

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: 'holding the increase in the global average temperature to well below 2° C above pre- industrial levels' and pursuing 'efforts to limit the temperature increase to 1.5°'.

Stop Climate Chaos Scotland (SCCS) is a diverse coalition of faith, development and environment organisations, trade and student unions and community groups working together for climate action.

Comments on the consultation process

¹ Scottish Transport Statistics 2014, Transport Scotland, www.transportscotland.gov.uk/statistics/j357783-00.htm

SCCS welcomes the opportunity to respond to this consultation. However, we have a number of concerns about the consultation process:

- The consultation is taking place *after* a commitment has been made to cut APD. It is possible, and in our view probable, that an objective assessment of the regime will conclude that APD should be retained;
- The APD stakeholder forum is heavily weighted in favour of participants who have a vested interest in seeing APD removed. There is no representation of the rail industry even though it is likely to be significantly impacted by the proposals;
- Research referred to on economic benefit was commissioned by the beneficiaries of any reduction on APD - the aviation industry. If research is to be relied on in reaching conclusions, it should either be independent, or include the full range of research available from different areas of interest; and
- The consultation document is consistently weighted in favour of removal of APD. For instance, it refers to APD as being one of the 'most expensive taxes of its kind in the world', without any contextual information about the significant tax exemptions enjoyed by aviation in comparison with other industries.

Inconsistency with Scotland's climate commitments

Proposed plans to reduce and ultimately scrap APD are inconsistent with Scotland's climate targets, as set out in the Climate Change (Scotland) Act 2009, and with wider Scottish Government ambitions to be global leaders in terms of climate action. Using these powers to reduce the already minimal tax burden on the aviation industry would seriously fail to take advantage of an opportunity to use newly devolved powers to support Scotland's transition to a low-carbon economy.

In their most recent report², 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 APD³ estimated a consequential increase in emissions of up to 60,000 tonnes CO₂ per year. Whilst APD was never intended as an environmental tax, reducing APD would make achieving our important climate targets more difficult. The Scottish Government has not specified which sectors of the economy would have to increase efforts to make up for these increased emissions, what mechanisms would be used to achieve this, or what cost this would place on the public purse.

Other aspects of Scottish Government policy clearly recognise the need to address sustainability of transport including aviation emissions. The Low Carbon Behaviours Framework sets out that, as one of ten key behaviours, the public should '[use] alternatives to flying where practical'. Any cut to APD will provide an incentive to a behaviour Scottish Government has stated it wishes to disincentivise.

Aviation is already notably under-taxed

APD is estimated to bring in £3bn a year to the UK Treasury in revenue, approximately £230-300m of which would be collected by the Scottish Government if APD were retained at current levels. It is a highly cost-effective tax to collect as it is collected by the aviation industry on behalf of the Government.

² Committee on Climate Change, *Reducing emissions in Scotland, 2015 Progress Report*

³ 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

Airfares are not subject to VAT and aviation fuel is tax-free. A 2003 study⁴ 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 in £0.4 billion, suggesting that the aviation industry benefits from an annual tax exemption of at least £10 billion. This is likely to be a significant underestimate, given VAT has increased and air travel expanded since this study was carried out.

This windfall continues to be accrued despite the externalities associated with air travel in the UK which result in costs for society, including:

- Air and noise pollution (with associated health impacts)
- Biodiversity impacts of airport expansion (including habitat loss)
- Costs of climate mitigation
- Social costs to nearby communities
- Cost of infrastructure and traffic congestion around airports

Impacts on rail travel – a low carbon alternative

Other forms of transport such as rail travel do not enjoy the above tax exemption privileges. As a result, it is difficult for rail ticket prices to compete with flying, in spite of rail travel being lower carbon and used by a wider section of the population. The aviation industry has argued that whilst it benefits from these tax exemptions, it does not benefit from subsidies provided to surface transport industries. We reject the contention that these can be balanced however, as Government spending on essential transport infrastructure, public transport and rural connectivity, represents support for public goods, aimed at increasing social mobility and generating other economic and sustainability benefits, which are not relevant to air travel.

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 far more sustainable mode of transport. Yet for most people, train fares have been rising, three times as fast as wages for some tickets, while the cost of air travel has reduced. In addition, a simple cut in APD would fail to differentiate routes where there are rail alternatives, from those without alternatives, such as island 'life-line' flights.

Scotland's lowest income groups would not benefit from this proposal

Propensity to fly increases with income and socio-economic group⁵, and 15% of the population of the UK take over 70% of all flights. Scotland's lower income groups will achieve no or minimal benefit from a cut to APD, and higher earners (and corporations) will achieve a disproportionate benefit. The consultation states that 'passengers can end up paying £184.00 tax on some flights'. However, this is the top rate of APD and applies only to first and business class passengers on certain long haul flights. Fewer than 0.4% of all air passengers fell into this category in 2010/11.

Changes to Scotland's tax regime should demonstrate a commitment to social justice and achieving low carbon behaviour. 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.

⁴ 'The Hidden Cost of Flying' by Brendon Sewill. A 2003 report by Volterra, produced for BAA had similar conclusions.

⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/336702/experiences-of-attitudes-towards-air-travel.pdf

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 annually since 2010, following a dip tied to the recession⁶. Over 18 international routes from Scottish airports have been launched or extended in the past year⁷, and not a single discontinued route, of which there are few, has been attributed to APD.

Further key propositions of the consultation are that an APD cut would bring benefits for business and tourism. SCCS considers that an APD cut is unlikely to bring net benefits for either sector, and could be harmful to domestic 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 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 also constrained 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.'

If the premise of any change in APD is that it will increase flights to and from Scotland, proper weight should be given to the emissions implications of that rationale if it were adopted by all members of the international community. The Scottish Government has talked a great deal on the international stage about being a climate leader. Reducing taxes on aviation would be inconsistent with that message and would not set a good example of policy and intention in this sector.

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

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