

Transform Scotland

Evidence paper to Finance and Constitution Committee

Air Departure Tax (Scotland) Bill

8 February 2017

1. About Transform Scotland

Transform Scotland is the national sustainable transport alliance, campaigning for a transport system which is environmentally sustainable, economically responsible and socially inclusive. We have around 60 member organisations across the private, public and third sectors. We are politically independent, evidence-based and strictly not-for-profit, with an elected board of directors drawn from business, local government and charities.

Transform Scotland welcomes the opportunity to submit these comments and would be pleased to engage with you further on this subject.

2. Introduction

The Air Departure Tax (Scotland) Bill is, formally, a technical bill devolving the current Air Passenger Duty charge on Scottish commercial passenger flights to the Scottish Government. As such, we have no objection to the provisions regarding chargeable passengers, aircraft, collection and management of tax.

However, the most significant outcomes of the ADT would primarily be determined by regulations to be set out by ministers. We are concerned by the consequent impact on democratic scrutiny; and the accompanying documents which set out the Scottish Government's policy intentions. The Bill itself, whilst formally a technical measure, cannot, therefore, be separated from these likely outcomes.

3. Objectives

The Policy Memorandum sets out how the Scottish Government believes APD is 'an increasing burden on airports, airlines and passengers which holds back air route development' (para 7). It 'will design and structure ADT in a way which boosts Scotland's air connectivity and economic competitiveness, encouraging the establishment of new routes which will enhance business connectivity and tourism.' (para 8). The Bill is therefore set in the context of an intention to increase air travel to and from Scotland.

'A fundamental part of the Scottish Government's plans for ADT is a commitment to a 50% reduction in the overall tax burden by the end of the fifth session of the Scottish Parliament...abolishing the tax when resources allow. This would help to generate new direct air routes, sustain existing routes and increase inbound tourism.' (para 10)

Transform Scotland, and other organisations, contend that the inevitable outcomes not only conflict with other Scottish Government policies, but are also inconsistent within their own terms.

4. Government Policies

The Climate Change (Scotland) Act 2009 requires the Scottish Government to reduce carbon emissions; it has taken positive steps to do so. This is a key priority for all governments, following the Paris Agreement which came into force in 2016. The consequence of generating 'new direct air routes', and sustaining existing routes, is that carbon emissions will increase.

Emissions from aviation are predicted to use over a quarter of the carbon budget needed to avoid

temperature increases of 1.5°C by 2050¹. The Paris Agreement aims to hold global average temperature growth to well below 2°C above preindustrial levels and attempt to limit the increase to 1.5°C.

In 2013 aviation accounted for 15% of Scotland's carbon emissions from transport². Transport produces 28% of Scottish emissions. The Scottish Government's own analysis predicts that reducing ADT will increase CO₂ equivalent by as much as 60,000 tonnes/yr³.

The Bill as introduced does not set out the tax bands or rates which underpin the planned 50% reduction in the overall tax burden. The Scottish Government has indicated that it will provide these later; and information on the full impacts of a 50% reduction in ADT, when it publishes its proposals on the reduction, including economic, financial, environmental and transport impacts. It is surprising that this information is not available now; it suggests that the policy has been decided on before these outcomes have been considered.

The Policy Memorandum indicates that the next step of the Strategic Environmental Assessment process is to consult on how a 50% reduction in the overall tax burden could be delivered. It indicates that an Environmental Report accompanying the consultation will outline the results of the assessment and provide a means to understand the likely environmental implications. The Environmental Assessment (Scotland) Act 2005 requires this consultation to be carried out before a public plan or programme is submitted to a legislative procedure (Policy Memorandum, para 101).

The question set out is 'how', not 'whether' a 50% reduction can be delivered in the context of the SEA. As noted above, it should be expected that the SEA be completed before, not after, the planned tax is submitted to a legislative procedure.

Promoting sustainable transport is an important part of a wide range of Government policies (e.g. health, economy, and environment). Indeed, one of the Government's National Indicators is the need for modal shift from carbon-intensive transport to more environmentally sustainable modes. Nevertheless, actual expenditure continues to favour unsustainable transport. From 2011-12 to 2016-17, public transport spending grew by 5% on buses, 3% on rail, and 54% on ferries. On roads it increased by 58%, and on aviation 53%⁴.

Rail is a much less carbon intensive means of long distance travel, but a reduction in ADT would undoubtedly undercut it, particularly for travel within the UK. The Scottish Government's own analysis identifies that a reduction to ADT would increase the number of domestic flights to Scotland⁵. A report for Edinburgh Airport⁶ states that a reduction would affect travel in all APD bands but the largest impacts in volume are on domestic and short haul traffic, travel which can use more sustainable modes.

Although rail travel is far more environmentally sustainable than aviation, it does not benefit from the tax breaks enjoyed by the aviation industry. Aviation is exempt from VAT and fuel duty, for example. A further tax reduction for aviation would encourage passengers to travel by plane, particularly within the UK. This would undermine the business case for High Speed 2 (HS2) services to Scotland, even though this is a key Scottish Government objective.

¹ Carbon Brief: 'Analysis: Aviation could consume a quarter of the 1.5c carbon budget by 2050'. www.carbonbrief.org/aviation-consume-quarter-carbon-budget

² Scottish Government: Draft Climate Change Plan, 2017

³ Scottish Government: Estimate of the Impact on Emissions of a Reduction in APD in Scotland, 2014 www.transport.gov.scot/report/j340458-01.htm

⁴ Transform Scotland Scottish budget briefing December 2016

⁵ Scottish Government: Estimate of the Impact on Emissions of a Reduction in APD in Scotland, ibid

⁶ Edinburgh Airport 'The impact of reducing APD on Scotland's airports' March 2015

HS2 aside, tax breaks for flights between Scotland and England will undercut existing Anglo-Scottish rail services, resulting in fewer services, lower franchise payments to government, or both⁷. Virgin Trains' modelling suggests that a third of the southbound Edinburgh-London rail market could be lost to air if APD were removed.

In summary, the proposed reduction of 50%, rising to 100%, conflicts with the Scottish Government's other policies on transport, carbon etc. It will increase air travel (an explicit objective of the proposal), but will do so primarily by drawing passengers away from rail travel on Anglo-Scottish routes.

5. The economic case

The assumption in the Scottish Government's documents is that reducing ADT will encourage air travel in Scotland, and that doing so will enhance Scotland's economy. However, as noted above, most of this is likely to be simply switched from rail.

In any case, we question the figures produced in support of this argument. We have yet to see set out in such figures whether, among the claimed additional jobs and economic benefits to Scotland, the cost of jobs and economic benefits lost in other transport industries are considered. For example, Edinburgh Airport's report⁸ acknowledges that 'lowering of rates in Scotland is likely to have a detrimental impact on some airports in England', but this is not in the report's scope. It therefore seems likely that the cost to the rail industry, for example, is not in scope either.

APD income, which reflects passenger numbers, follows economic growth. It has recovered in recent years after falling during the recession. APD was frozen April 2001-February 2007, then doubled from February 2007. Hence doubling it had no long-term impact on passenger numbers, and any effect was swamped by general economic trends⁹.

'APD receipts in Scotland rose by just over 260%...between 1999-00 to 2015-16, compared to just under 250% in the UK as a whole'; so it does not disproportionately affect travel to or from Scotland¹⁰.

One argument put forward to justify reducing APD is that cheaper air travel will increase the number of visitors to Scotland, providing economic opportunities. Proponents of a reduction claim the Scottish economy would benefit by around £200 million per year¹¹. However, in 2015 Scotland had a tourism deficit of £1.6 billion (i.e. residents of Scotland spent more in other countries than residents of other countries spent in Scotland). Reducing the cost of air travel encourages residents of Scotland to holiday abroad rather than at home, increasing the tourism deficit and moving money out of Scotland's economy.

The Government needs to consider, in particular, who will primarily benefit from reducing ADT. Transform Scotland has previously noted that aviation is one of the most lightly taxed industries in the world, receiving many more tax breaks than any other form of transport, as set out above.

The International Air Transport Association forecasts the global airline industry will earn £24bn in 2017, its third straight year of profit. Last year's projected profit is a record £27bn¹². The Chief Executive of Airlines UK recently told The Scotsman 'Domestic air connectivity from Scottish airports

⁷ Virgin Trains evidence to the Finance and Constitution Committee, February 2017

⁸ Edinburgh Airport 'The impact of reducing APD on Scotland's airports' March 2015

⁹ SPICe briefing SB 17-05, January 2017

¹⁰ Ibid

¹¹ www.edinburghairport.com/about-us/media-centre/press-releases/slashing-air-passenger-duty-will-add-1bn-to-scottish-economy-and-create-4000-jobs

¹² www.iata.org/pressroom/pr/Pages/2016-12-08-01.aspx

and elsewhere in the UK is in excellent shape'¹³.

The Scotsman also reported that Edinburgh Airport intends to charge operators an extra £200/flight from 6.45am to 7.17am, plus £2/international passenger between June-Aug (though 'offset'), and increasing landing charges by 8%. Evidently current APD levels are not deterring current demand¹⁴. It also indicates that any reduction in ADT may be offset by higher airport charges.

These, of course, would provide another revenue stream to the air industry; in effect, an annual grant from Government to businesses which are often based abroad. The Financial Memorandum quotes OBR estimates that whilst ADT at current rates will raise £300 million in 2016-17, by the end of the current Parliament (2021) it would raise £360 million. The Government's current proposals for a 50% reduction by 2021 would thus allocate £180 million/year from its budget to the aviation industry.

Aircraft operators are liable to pay ADT per chargeable passenger. Nothing either requires or prevents them from passing the cost of the tax, or any reduction in tax onto passengers. In practice it appears that they almost universally do so.

6. Equalities

The Policy Memorandum cites the context of the Scottish Government's ambition to create a more cohesive and resilient economy that improves the opportunities, life chances and wellbeing of every citizen in Scotland, and that internationalisation is one of the priorities for sustainable growth underpinning the strategy. Its approach to taxation has three key features:

- Four principles of certainty, convenience, efficiency and proportionality to the ability to pay
- A collaborative approach to stakeholder engagement
- Taking a tough but fair approach to tax avoidance... the burden of tax is shared equally...

Despite the falling cost of aviation in recent decades, people on higher incomes fly far more frequently than people on lower incomes. 70% of all flights in the UK are taken by the wealthiest 15% of the population¹⁵. Indeed, over half of people in the UK did not fly at all in 2013¹⁶. So a reduction in ADT would financially benefit frequent flyers on higher incomes far more than those on low incomes who typically fly less or not at all.

Given the Scottish Government's commitment to tackling social inequalities and reducing economic imbalances, reducing ADT will increase the difficulty of achieving a more equitable and fair society; and appears to be at odds with at least some of the Government's approach to taxation set out above.

It is argued that reducing ADT will reduce the cost of doing business in Scotland. However, APD is currently set at a level that does not affect decisions about whether to travel to or from Scotland for business. Indeed, Edinburgh Airport's own report¹⁷ states that business traffic is price insensitive, limiting the effect of reducing ADT.

A family of four, all over 15 years old, travelling second class between Scotland and another European airport would save £26 with a 50% cut, or £52 if ADT is abolished¹⁸. The saving would be smaller if any child is under 16. This is an insignificant part of the total cost of a holiday, and unlikely to affect travel to or from Scotland for such journeys. It may, however, reduce the price below the rail fare for a journey within the UK, and so encourage a switch from rail to air.

¹³ www.scotsman.com/news/transport/edinburgh-london-rail-passengers-reach-one-million-for-first-time-1-4327325

¹⁴ www.scotsman.com/regions/edinburgh-fife-lothians/airline-moves-flight-from-edinburgh-to-glasgow-after-landing-fee-rise-1-4314576

¹⁵ DfT Statistical release, July 2014: Public Experience of and attitudes towards air travel, Table ATT0601 and DfT's National Travel Survey, 2013, Table NTS0316.

¹⁶ www.neweconomics.org/blog/entry/a-fairer-way-to-fly

¹⁷ Edinburgh Airport 'The impact of reducing APD on Scotland's airports' March 2015

¹⁸ 2,000 miles allows travel to north Africa, or to Ankara, Turkey.

For a single passenger, typically on business, the saving is even less. The main beneficiaries would be those who travel first class, more frequently, and/or over 2,000 miles. As noted above, these are overwhelmingly those on higher incomes.

Transform Scotland considers that, if there is a case for reducing ADT, it should be done in a way that is socially equitable, while minimising environmental impacts. It should not disproportionately benefit those on higher incomes, and should be limited to flights for which there is no practicable alternative. Thus it should focus on flights serving island communities (whilst taking care not to undermine ferry services). However, the structure proposed by the Government is an extremely blunt instrument, with effects which are likely to be the opposite.

Although some island air services are exempt from APD and ADT by virtue of the small aircraft used, operator websites shows that this is not universally the case.

APD/ADT is not chargeable on rotary aircraft e.g. helicopters, and aircraft not fuelled by kerosene (e.g. piston-engine aircraft which are typically fuelled by aviation gasoline). The logic behind this is not clear; however, we do not consider this a significant issue, compared to other issues with the Bill.

7. Alternatives

We suggest better ways of allocating £150 million to £300 million of the Scottish Government's budget, and which would be more consistent with its wider policies could be, for example:

- Increase Bus Service Operator's Grant/extend the national concessionary travel scheme (current spend £50m/£200m/yr). Together, they could improve connectivity for communities which currently have no, or inadequate, bus services. The current scheme would continue to be affordable; the prospect of increasing the entitlement age, reported in the media in January, would be unnecessary. Halting the steep fall in bus use (10% in five years) would benefit people on low incomes, help the Government's equalities agenda, and cut congestion (one of the Government's National Indicators).
- Invest in walking and cycling, with consequent public health benefits and potential health budget savings.
- A revenue stream of over £150 million/yr could fund significant capital spending that would achieve the Scottish Government's transport aims of improving journey times and connections, reducing emissions, and improving quality, accessibility and affordability. It would deliver the major projects throughout Scotland outlined in Network Rail's proposals for 2019-24¹⁹.

Conclusion

Transform Scotland is seriously concerned by the likely outcomes of this Bill as drafted. As it stands at present:

1. APD is a small part of the overall cost of travel, and is therefore unlikely to affect total travel to or from Scotland. Reducing it will, however, be sufficient to undercut rail fares for journeys within the UK, and so encourage a switch from rail to air.
2. The Bill may therefore achieve its objective of increasing air travel to and from Scotland. However, there is no reliable evidence that this will achieve the wider aim behind that objective, which is to enhance Scotland's economy.
3. It will reduce Scottish Government income, effectively by subsidising relatively wealthy operators.
4. It will redirect taxation away from people with higher incomes, whilst providing little or no

¹⁹ www.networkrail.co.uk/wp-content/uploads/2016/11/Scotland-Route-Study.pdf

benefit for those on lower incomes.

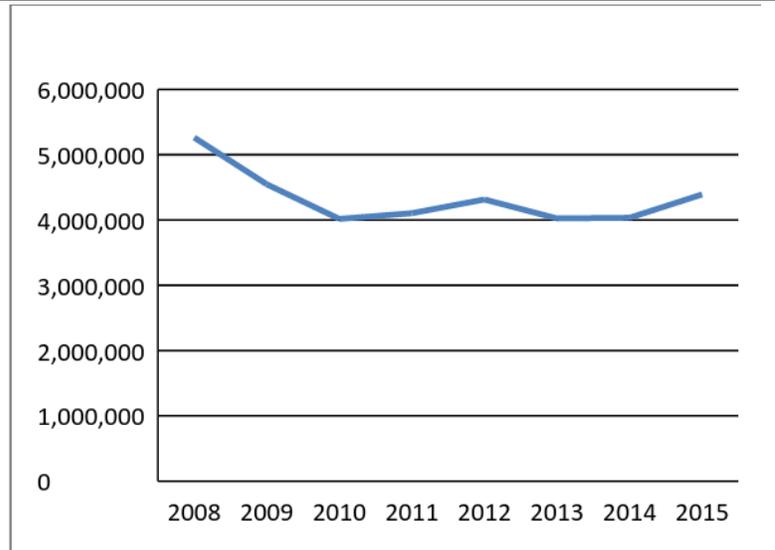
5. It conflicts with other Scottish Government objectives, notably on climate change.

In summary, we suggest that much more careful consideration needs to be given to how the Bill should be implemented in practice, in order to promote, rather than contradict, the Scottish Government's wider objectives.

APPENDIX: Case Study, Belfast International Airport

Direct flights from Northern Ireland to a band B, C or D destination are charged a £0 rate since November 2011. This is due to Continental Airlines threatening to stop the direct Belfast - Newark flight due to lack of demand because of the tax. In 2016, United Airlines (which took over Continental) announced it would terminate the Newark-Belfast route by January 2017 (Belfast's only year-round long-haul service).

	Total passengers	Total movements
2008	5,262,354	55,000
2009	4,546,475	44,796
2010	4,016,170	40,324
2011	4,103,620	57,460
2012	4,313,685	58,011
2013	4,023,336	54,003
2014	4,033,954	50,973
2015	4,391,307	52,246



In 2012, immediately after the abolition of APD on Band B, total passenger numbers increased slightly; whether this was on Band B, Band A, or both, flights is not clear. However, numbers then declined to the level they were in 2010. They stayed there until 2015, in common with other airports which had continued to charge APD on all Bands.

Busiest international routes to/from Belfast International Airport (2015)

Airport	Passengers 2015	Passengers 2014	% Change 2014/15
Palma	137,405	140,373	-2
Málaga	117,770	116,572	+1
Alicante	114,865	113,556	+1
Faro	113,758	115,963	-2
Amsterdam	101,894	97,381	+5
Paris Charles de Gaulle	77,969	79,820	-2
Lanzarote	75,784	57,167	+33
Tenerife	75,224	78,903	-5
Newark USA	69,258	82,958	-17

Kraków	44,157	44742	-1
Barcelona	37,924	42725	-11
Reus	36,304	37026	-2
Dalaman	31,395	39386	-20
Ibiza	30,514	30405	0
Keflavik	26,133	1025	+2450
Geneva	25,552	25891	-1
Katowice	23,155	New Route	
Vilnius	21,777	New Route	
GranCanaria	20,690	9105	+127
Nice	20,081	19503	+3