

AIR PASSENGER DUTY

What this paper is about

This paper has been drawn up and is submitted at the request of the Southampton Airport Consultative Committee. It concerns the recent changes to the manner in which the previous Government charged Air Passenger Duty (APD) as well as a two stage increase in the amounts charged.

Points for Discussion

Southampton Airport Consultative Committee believes that as it is now configured APD is an unfair tax and that the amounts charged, and proposed to be charged, are too high.

Points for Possible Action

The Southampton Airport Consultative Committee would like the meeting to consider making representations to the UK government.

Introduction

1. APD is an excise duty which is charged on the carriage, from a UK airport, of “chargeable” passengers on “chargeable” aircraft. Chargeable means almost all fare paying passengers using aircraft operated by the airlines at UK airports.
2. Air passenger duty was introduced in 1994 to broaden the tax base. There was a two-band structure, charging a different rate for flights to European and non-European destinations. Since its introduction 16 years ago, rates have changed only four times, including a reduction in economy travel rates in 2001. Rates were frozen between 2001 and 2007 and again for 2008-09.
3. In the 2007 Pre-Budget Report (PBR) the previous Government announced that it would consult in early 2008 on proposals for replacing air passenger duty (APD) with a tax payable per plane (‘aviation duty’). Following the consultation the previous Government announced in the 2008 PBR that rather than proceed with a per plane tax it would instead reform APD from a two-distance band regime to a four-distance band regime. In reaching its decision the previous Government said it had taken into account a number of factors, including the need to provide stability in current economic conditions, the agreement to include aviation in the EU emissions trading scheme (EU ETS) and the responses to the consultation. The previous Government felt that reforming APD would avoid the disruption and costs associated with the transition to a new tax, “while continuing to send environmental signals to passengers and the industry alike, and ensuring that the sector contributes fairly to public services.”

The changes

4. Until 31 October 2009 there were four rates of duty:

Standard rates:

- £20 for specified European destinations
- £80 for all other destinations

Reduced rates:

- £10 for specified European destinations
- £40 for all other destinations

5. The reduced rates applied where the passengers were carried in the lowest class of travel on any flight unless the seat pitch exceeded 1.016 metres (40 inches), in which case, whether there was one or more than one class of travel the standard rates applied.
6. Since 1 November 2009 a four destination band structure based on geographical distance from London has applied, each having two rates of duty depending upon the class of travel, so there are eight different rates of duty
7. The bands are mostly based on the distance between London and the capital city of the destination country/territory. Here is a table which shows the new bands and the rates now charged as well as the new rates which take effect on 1st November next:-

Band and approximate distance in miles from the UK travel	In the lowest class of travel (reduced rate) from:		In other than the lowest class of travel (standard rate) from:	
	1 November 2009	1 November 2010	1 November 2009	1 November 2010
Band A (0-2,000)	£11	£12	£22	£24
Band B (2,001-4,000)	£45	£60	£90	£120

Band C (4,001- 6,000)	£50	£75	£100	£150
Band D (over 6,000)	£55	£85	£110	£170

8. It should be noted that APD is not payable on flights departing *from* airports in the Scottish Highlands and Islands. However, flights from other areas of the UK *to* those airports are liable to APD at the appropriate rate.
9. Also, for APD purposes connected flights are treated as one journey and APD is charged according to a passenger's final destination irrespective of the number of flights that they take to get there, provided the flights are connected. Where a journey is made by connected flights it is the first carrier who is liable for APD. If the first flight of a connected journey is made on a non-chargeable aircraft, then the whole journey is exempt from APD.

Reactions

10. Members will be aware, not least from items circulated by the UKACCS News Service, that the new arrangements have stirred up considerable controversy. A selection of items circulated by the news service late in October last year (i.e. just before the changes took effect) is attached in the Annex to this paper. These sum up very well the opposition to the changes and the reasons for it.
11. In a wide-ranging report published on 7th December 2009¹, the Transport Select Committee of the House of Commons said it recognised the importance of Air Passenger Duty (APD), but was concerned that, when setting the level of APD, the Government needs to be mindful of the vulnerability of the aviation industry in the current economic climate. It also needs to take account of competition from other European airports.
12. Not surprisingly, the changes seem to be universally opposed in the travel industry but it will be noted that the increases have also stirred up opposition overseas. Among the countries complaining about the new system are those in the Caribbean. This is because the new banding system discriminates in favor of the United States over the Caribbean. It does so by determining that the whole of the US is closer to London than the Caribbean. This is because air passengers bound for, say, California or Hawaii pay the same tax as those flying to, say, St. Kitts and Nevis in the eastern Caribbean even though the US destinations are considerably further away. Starting last November the APD payable by a visitor to the Caribbean traveling in economy class increased by 25 percent. From November 2010, the increase will be 87 percent. And for passengers traveling in Premium Economy and Business Class, the corresponding increases are 25 percent and 94 percent respectively. Caribbean tourism experts and government officials believed the impact of the increased APD on UK visitors to the Caribbean would be immediate and a negative effect on the economies of Caribbean countries was expected. Last year, the region received over one million British visitors. There has been talk that the Caribbean countries concerned may challenge the increased tax in the courts. Many believe the discrimination was deliberate.
13. The Caribbean issue was subject to a debate in Westminster Hall on 26th January when Sarah McCarthy-Fry, Parliamentary Secretary, HM Treasury, indicated the previous Government's commitment to continue to consider the issue to work out whether there was a way to mitigate the impact of APD reform on ticket prices to the Caribbean within the constraints of European and international law and having regard to the impact on the public finances. Given the fiscal situation, the previous Government was not able to accept options such as just decreasing APD rates as that would reduce the expected APD revenue. She also indicated that the previous Government could not move the

¹ <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmtran/125/125i.pdf>

Caribbean countries alone to another tax band without objective justification. The Chicago convention on international aviation required the UK to treat countries equally.

14. The previous Government had considered basing the tax or tax band on the exact distance of flights rather than the distance to the capital. However, that would be illegal under the Chicago convention to which the UK is a signatory. Some have suggested that moving to a per plane tax would help. But there is no reason to suppose that moving to such a tax would result in less tax on flights to the Caribbean. In fact, implementing a per plane tax on the basis proposed by the previous Government in 2007/8 consultation would have resulted in more tax being paid on flights to the Caribbean than the reformed APD.
15. The previous Government believed that APD was an important contributor to Government revenue and felt that flying was a relatively under-taxed activity. No fuel duty is paid and there is no VAT on tickets. As mentioned above the reform of APD was intended to ensure that flying contributes its fair share to public services as well as to send out an environmental signal to passengers and the industry alike.

The New Government?

16. The note² issued on 11th May 2010 of the agreements reached by the two parties in the new coalition Government says the new Government will replace Air Passenger Duty with a per flight duty.
17. This was to be expected. The Conservative election manifesto says if elected they would “reform” Air Passenger Duty to encourage a switch to fuller and cleaner planes. Although there was no detail it is thought that the Conservatives were thinking of a per-plane tax. And in their election manifesto the Lib Dems said they would replace per-passenger APD with a per-plane duty (PPD) “so capturing freight movements by air for the first time”. They said they would impose a higher PPD for domestic flights “for which alternative and less polluting travel is already available”. Again, there was no detail.

Assessment

18. When it comes to measures to protect the environment it seems that aviation is an easy target. Many would argue that this is unfair. Nonetheless there can be no doubt that in settling on the new APD arrangements the previous Government sought to play the environmental card – Ministers were quick to claim that they were out to “send environmental signals to passengers and the industry alike”. But they were anxious, too, that the sector should contribute fairly to public services and many have argued that the measures are aimed primarily at raising revenue.
19. The second round increases due in November next are very steep. And if the arrangements are not changed there will surely be more increases to come. The adverse impact on the industry, and on some countries overseas, is said to be considerable.
20. Members will recall that the previous Government’s proposal to replace APD with a duty payable per plane was considered at the Annual Meeting in 2008 and there was general support for that change. However, delegates felt that the proceeds from APD, or at least a proportion of the proceeds, should be used directly for environmental mitigation measures perhaps by way of a Trust Fund. Such arrangements had been made in other industries, for example the taxes from landfill and quarrying activities were used to mitigate the detrimental effect on local communities.
21. It is time perhaps for the Liaison Group to review the implications of the APD. It seems very likely the new Government will change the present arrangements in favour of a per plane duty. From the items circulated by the UKACCS News Service members will be aware that this has already stirred up huge controversy. The Liaison Group might wish to make suggestions to the new Government about the level of the new tax or about the

² <http://www.ukaccs.info/coalitionagreement120510.pdf>

hypothecation of some or all of the proceeds to fund measures to mitigate the impact of aviation on the environment. If for any reason the new Government should decide after all to maintain the status quo, or the new measures are delayed, the new Government should at least look again at the increases planned for November next to see whether the damage to the industry, the economy and overseas countries is too great?

Stuart Innes
May 2010

1. Extract from Press Release issued by the International Air Transport Association (IATA)

“The policies of some governments in light of the industry’s trauma are disappointing. The UK is a case in point of a government detached from reality. The global economic crisis makes cost reduction a matter of survival. And the upcoming Copenhagen meeting on climate change demands attention on measures to reduce emissions. What is the UK government doing? From 1 November it is increasing its Air Passenger Duty (APD) to collect GBP 2.5 billion annually from air travellers in the name of the environment. They have it all wrong. Taxes won’t reduce emissions. And making travel more expensive will not stimulate the economy,” said Bisignani [*i.e. Giovanni Bisignani, IATA’s Director General and CEO*].

“The GBP 2.5 billion APD is completely disproportionate to the GBP572 million that it would cost to offset the entire carbon footprint of UK aviation. “Charging travellers over four times for their emissions makes absolutely no sense. Instead of raising taxes, the UK government should get behind the aviation industry’s ambitious targets to fight climate change, namely (1) improving fuel efficiency by an average of 1.5% annually to 2020, (2) stabilizing emissions from 2020 with carbon neutral growth and (3) cutting net emissions in half by 2050 compared to 2005 levels”

2. Travelmole: ‘APD hike to ‘hit families hardest’

Families struggling with the recession will be the biggest losers as the government hikes Air Passenger Duty from Sunday, ABTA claims.

A family of four flying to the US will pay £180 in tax and £240 from November 2010 when the aviation “poll tax” is set to rise again, according to the association.

ABTA chief executive Mark Tanzer said: “These APD rises will put pressure on jobs and damage local economies reliant on tourist expenditure both here and abroad when we are already suffering from the impact of the recession.

“They will place an even greater financial burden on families and others on tight budgets as they book their holidays or visits to friends and family.

“They will undo a lot of the good work being done by the industry to keep prices at an affordable level.”

Airlines may consider removing premium economy cabins providing additional leg room as APD increases will double for passengers choosing this option.

The Caribbean is disproportionately affected with tax rates higher than flights to the US, “highlighting the illogicality of the tax which is meant to be based on the distance travelled,” ABTA said.

Caribbean destinations will see a family of four having their bill increase to £200 from November 1 and £300 a year later.

Inbound tourism will also be damaged as foreign visitors are put off from travelling to the UK, ABTA believes.

Regional airports will suffer as airlines consider the profitability of maintaining routes with an increased tax burden at a time of declining passenger numbers.

The UK government is one of only two governments to tax air passengers in this way.

The steep APD rises will have a disproportionate effect on some of the poorest countries in the world whose economies are heavily reliant on tourism as long haul travel bears the most savage increases, ABTA warns.

3. Travelmole: ‘APD hikes create discontent amongst public and airlines’

As Air Passenger Duty is set to rise next week, a new survey reveals that most people believe it is time to reform the travel tax.

From November 1, the APD bill for a family of four flying to the Caribbean will rise from £160 to £200 and from November 2010 that will rise again to £300.

The tax hike affects both short haul and long travellers, is worked out according to distance of flight (there are four bands) and is higher still if travelling in premium classes.

The YouGov survey of just under 2000 adults, published today and commissioned by Easyjet, highlights the fact that private jets, cargo planes and foreign passengers are exempt from the charge. It also underlines that environmentally, the tax does not work as empty planes that fly are raising less revenue than full ones.

The survey showed that four fifths of the population agreed that all flights should be taxed however 69% said the toll should be arranged so that it tackles climate change. Some 65% thought that foreign transfer passengers should pay the fee too.

The government pledged to reform APD into an emission based flight tax in 2007 but later changed its mind.

BA chief executive Willie Walsh hit out at the government this week over the APD issue. He told journalists on BA's inaugural daily non-stop service to Las Vegas this week that the hike would traumatise the aviation industry at a time when it was suffering badly and called on the government to think again about APD.

Easyjet chief executive Andy Harrison was also highly critical of the government's actions on APD. He said: "Air Passenger Duty is a daft tax that the government promised to reform. It broke its promise and increased the tax burden on the average family instead.

"People don't understand why their tax is going up again while pampered fat cats on private jets, cargo planes and foreign transfer passengers still don't pay any tax at all. How can the government justify a tax break for 20 million foreign transfer passengers while charging a British family of four £44 to go to Europe?

"We need to make air tax greener and fairer now. It should be reformed from a poll tax into a flight tax that taxes emissions, not families."

3. **Travelmole: 'Cameron urged to axe further APD rises'**

Virgin Atlantic has called on Tory leader David Cameron to scrap further Air Passenger Duty hikes if the Conservatives are elected to power next year.

The first of a two-stage rise in APD comes into force on November 1 followed by a second increase in 12 months time.

The airline's chief executive Steve Ridgway said: "These proposed increases will not only hurt the aviation industry but also harm the British economy and those of many developing countries, like the Caribbean, which heavily rely on the tourism trade. It will also tax many hard working British holidaymakers out of flying altogether.

"We are therefore calling on the Conservatives to see sense on this issue and commit to scrapping the planned increase for 2010 if they are successful at the next election. Everyone knows the airline industry, along with the wider UK business community, will be severely damaged by these unjust future increases in APD.

"The Government seems to claim this is an environmental tax despite a total lack of evidence to support this claim.

"Aviation is already paying its own way for carbon emissions generated and any further increases in APD are simply lining government pockets."

The carrier supports proposals for a global carbon emissions trading scheme involving all airlines, being proposed at December's Copenhagen Summit. The proceeds from the scheme will go towards finding clean energy solutions.

Virgin Atlantic's main concerns about APD are:

- Short-haul routes, where there is often a viable alternative, will receive the smallest increases in APD while the largest will be applied to long-haul routes where no alternatives exist
- The levels of APD bear little relationship to the environmental impact of air services
- These extraordinary tax hikes will severely harm the UK aviation industry – we urge the Government not to penalize the airline industry to an extent that no other country would contemplate

- British business and the British economy will suffer as passengers will fly via third countries to avoid the tax
- The new banding system is discriminatory against many regions, including the Caribbean which is heavily reliant on the tourism industry
- Hard working holidaymakers will be hard hit by this unjust tax
- Premium Economy passengers will be unfairly hit with the same charges as Upper Class passengers despite their fares being much lower
- APD should be withdrawn as soon as aviation becomes part of the EU Emissions Trading Scheme in 2012 otherwise the UK aviation industry would be taxed twice-over

The increases mean that the APD tax on a flight from Heathrow to Dubai will go up from £40 to £60; the tax on a Premium Economy ticket from Gatwick to Barbados will go up from £80 to £150 and the tax on an Upper Class flight from Heathrow to Sydney will rise from £80 to £170.

The airline's e-tickets since July have carried messages criticising the unjust tax increase by the Government, and asking passengers to visit a new information website www.virginatlantic.com/unjusttax so they can protest to their local MP about the increases.

4. Daily Telegraph: Air Passenger Duty: What you can do to scrap travel tax

The first of two increases in Air Passenger Duty (APD) comes into effect on November 1. Under a new four-tier banding system (based on the distance from London to the destination's capital city), the duty in economy class will rise from £10 to £11 per person on short-haul flights, from £40 to £45 or £50 on medium-haul flights, and from £40 to £55 on long-haul flights. Prices for passengers in premium-economy cabins will rise by up to £30. Next November, the increases will be even steeper.

The tax – originally presented as an environmental measure – will penalise not the well-off business traveller who flies on private jets but the ordinary British holidaymaker on a well-earned break.

APD has united the travel industry in unprecedented fashion. Airlines, cruise lines, airports, tour operators and environmental groups all see it as misguided and misleading. They argue that it will be damaging for travel, tourism, business, the economy and the environment.

The Daily Telegraph shares that view. Today we begin a campaign for APD to be scrapped. We hope you will join us by [signing our petition](#), which we plan to present to both the Government and the main opposition parties.

Ten reasons why APD must be abolished:

1 Disproportionate increase

In 2004 the Government imposed APD at £5 for short-haul flights and £20 for long-haul flights. In that time, airlines have improved the efficiency of their fleets, yet the Government's response has been to raise the tax on flights by up to 425 per cent. This comes as the travel industry is having to contend with rising fuel prices, the recession and a weak pound. The International Air Transport Association reports that, globally, airlines lost \$17 billion last year. When the biggest increases in duty are due, next November, some airlines may not be around to see them.

2 Private jets exempt

While travellers on commercial aircraft have to pay the tax, passengers on private jets do not. In other words, Roman Abramovich, Sir Philip Green, Simon Cowell and company will continue to be exempt, but families going on summer holiday will now pay even more. If this is really a green tax, then surely fuel-inefficient private jets should face the most severe penalties.

3 Cargo exempt

While ordinary passengers face paying up to 118 per cent more, cargo companies will avoid any such charges. A poll this week found that 80 per cent of Britons believe the tax should be extended to cover cargo and private jets. Presumably, the 20 per cent who disagreed work for cargo companies or enjoy the use of private jets.

4 Caribbean crisis

The Caribbean has been unjustly hit under the tax. The Government's banding system means that travellers to Los Angeles (11 hours) will incur less duty than those flying to Barbados (eight hours).

5 Egyptian error

It is equally hard to understand why Tunisia is put in Band A (£11), when Egypt is in Band B (£40), alongside the US, Canada, the UAE and Oman. In other words, a 2,100-mile flight to Sharm El Sheikh will cost the same as a 5,500-mile flight to Los Angeles. Malaysia is among the other destinations to be disproportionately penalised.

6 Premium penalty

Premium-economy passengers will be hit hardest. The duty on their seats, which offer a little more legroom for a modest fee, will rise from £80 to £150 by the end of next year. This means a family of four flying to the Caribbean will pay £600 in duty, up from £320 – the same as those in first class or business class. Britain's leading tour operators say they might have to abandon their premium-economy cabins.

7 Economic impact

For evidence of the potential impact of this tax increase, look to Holland. Last year the Dutch government abandoned its equivalent of APD. It had brought in more than 300 million euros in revenue in a year, but the wider cost to the economy – thanks to the increased cost of travelling to Holland – was estimated at more than 1.2 billion euros. Britain, lagging behind the world in climbing out of recession, can not afford to make a similar mistake.

8 Environmental damage

The Government sold APD to the public as a "green" tax, yet not a penny has been spent on environmental causes. The tax generates £2 billion a year. The new system is expected to bring in £3.5 billion by 2012. Yet airlines are adamant that they already cover the cost of their carbon emissions. This tax, based on distance travelled, does not reward those who improve fuel efficiency. Environmental groups say it could slow investment in greener technologies and deter passengers from offsetting emissions on the grounds that they are already "doing their bit" by paying APD.

9 Domestic decline

Given that we are counting down to the Olympics in 2012, is raising APD by up to 118 per cent the best way to promote tourism to Britain? Foreign passengers pay the tax on their return leg. The UK is alone in Europe in having such a tax. Of course, this Government has never demonstrated much of a commitment to an industry that brings in £114 billion a year – there have been eight different tourism ministers in 12 years.

10 Regional penalties

Anyone travelling on a low-cost airline from the British regions to connect to London airports and on to Europe will have to pay the increased tax not just on one flight but on two. We can therefore expect travellers from the regions to avoid London, and the tax, by picking up their long-haul connections in Amsterdam