

# AEF briefing on the importance of maintaining Air Passenger Duty as part of a green recovery for the aviation sector



2<sup>nd</sup> July 2020

## Summary

Cutting APD in order to stimulate demand with lower fares is unnecessary given that fares are likely to be low anyway due to available airline capacity and low oil prices. APD should be retained or increased during the recovery from the pandemic for the following reasons.

- The Government should not be implementing measures designed to stimulate aviation demand in the absence of meaningful policies to tackle the sector's environmental impacts, including noise and climate change. While the industry has set itself a target of net zero emissions there is currently no policy mechanism for holding it to account to deliver this.
- Many airlines have benefited from Government loans and made extensive use of the staff furlough scheme during the pandemic. In recovering, they should make a fair contribution towards rebuilding public finances, and on the spending necessary to support a green recovery.
- Travel abroad should not be incentivised at a time when the UK's domestic tourism and hospitality sectors need to rebuild.
- Aviation is already very lightly taxed - too lightly, NGOs have argued.
- Flying is a discretionary activity undertaken largely by those in the top half of the income spectrum. The 15% of the UK population who fly frequently are responsible for 70% of all flights, with the 1% most frequent flyers accounting for close to a fifth of all flights by English residents. To put the sector on a trajectory compatible with net zero, there is a strong case for increasing taxation rather than providing high income passengers with tax breaks.

## Introduction

The Transport Select Committee's (TSC's) recent report on 'The impact of the coronavirus pandemic on the aviation sector'<sup>1</sup>, recommended that the "UK Government and the devolved administrations (where they have not already done so) introduce a 12-month business rates relief for airlines and airports and a six-month temporary suspension of Air Passenger Duty payments."

While members of the TSC asked industry witnesses about how a recovery could be aligned with net zero climate and other environmental commitments, and the report makes a recommendation that alongside measures to help the industry recover, the Government should ensure that the industry delivers its environmental obligations, no reference was made to the role of taxation in helping to deliver this objective. Some unions and representatives of the aviation industry have similarly called for APD to be suspended.

On the other hand, the Committee on Climate Change, while not commenting on Air Passenger Duty directly, has argued in its recent advice to Government<sup>2</sup> that "Greater use of carbon taxes can support the public finances and strengthen incentives to reduce emissions. They are particularly attractive when global oil prices, and therefore consumers' energy costs, are low, as they are now."

<sup>1</sup> <https://publications.parliament.uk/pa/cm5801/cmselect/cmtrans/268/26811.htm>

<sup>2</sup> <https://www.theccc.org.uk/publication/reducing-uk-emissions-2020-progress-report-to-parliament/>

AEF, together with a number of large environmental NGOs has argued<sup>3</sup> that increasing taxes on air travel would both help to generate public revenue to be used in support of a green recovery and to support moves to put the sector on a more sustainable path going forward.

This briefing sets out why the UK should retain Air Passenger Duty as part of a green recovery.

## **Background**

Air Passenger Duty came into effect in 1994 as a means of raising revenue without damaging the economy, and was designed to go some way to making up for the anomaly that aviation is otherwise tax-free, paying neither VAT nor fuel duty. APD was estimated to have generated £3.7billion in the UK in 2018/19<sup>4</sup>, and it is one of the cheapest and simplest taxes to collect. APD is not levied on freight, transfer passengers or under-16s.

## **Reasons for retaining and increasing APD**

### *1) Aviation should pay a fair share towards public services and a green recovery*

Aviation has always been lightly taxed as an industry. While APD is often portrayed by the industry as a blisteringly high tax, the rate paid by 78% of air travellers (£13) has increased only £3 since 1997, and, adjusting for inflation, has fallen in real terms. If aviation paid the same level of duty and VAT on its fuel, as motorists currently do on theirs, revenue for the Chancellor would increase to over £11billion a year compared to the £3.8billion that APD raises today.

Airline representatives have argued that a suspension of APD could boost passenger demand in the wake of the Coronavirus shutdown by making air fares cheaper. But with passenger numbers across Europe down 98% in April (year on year), available airline seat capacity and falling oil prices are likely to mean that fares are significantly lower in the near future anyway than they would otherwise have been.

The Covid lockdown has required an enormous public expenditure to cover the wages of staff on furlough. Green Alliance, meanwhile, has estimated that delivering a green recovery will require over £14 billion of annual public investment to 2023, including £8.7bn per year in low carbon transport. The need for airlines, many of which have already benefited from Government loans as well as from the staff furlough scheme, to pay a fair share, by way of Air Passenger Duty, towards public finances, has perhaps never been greater. Since APD is levied only on passengers it will be directly proportional to the rate at which the industry recovers.

### *2) Encouraging travel abroad would be to the detriment of British tourism*

The UK hospitality industry has, like aviation, been hard hit by the Covid crisis. As venues begin to reopen around the UK, Government policy and messaging should focus on supporting UK businesses. Every year, a significant tourism deficit (worth £33.9 billion in 2019)<sup>5</sup> is created as more money is spent abroad by British people going on holiday than is spent by incoming holidaymakers to the UK.

Promoting domestic tourism is also in line with reducing UK emissions to net zero as air travel is the most significant component of the travel industry's carbon footprint. Aviation is an inefficient means

<sup>3</sup> <https://www.aef.org.uk/uploads/2020/06/Building-back-better-aviation-.docx.pdf>

<sup>4</sup> Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9713, October 2018 (Table 4.6)

[https://cdn.obr.uk/EFO\\_October-2018.pdf#page=113](https://cdn.obr.uk/EFO_October-2018.pdf#page=113)

<sup>5</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/articles/traveltrends/2019>

of generating economic benefits relative to the emissions produced, as summed up by the IEA's, Fatih Birol, who noted, in the context of potential Government bailouts for airlines, that in the global context while aviation is responsible for 8% of oil use it represents just 1% of the economy.

### 3) *Removing APD would undermine measures needed to tackle aviation's environmental impacts*

Suspending APD, even temporarily, is at odds with calls for environmental conditions and a green recovery. APD was never designed as an environmental tax and the rates charged have never been high enough – or smart enough – to solve the problems of noise and emissions presented by aviation. But boosting aviation growth through further tax concessions and reinforcing the idea of ever-cheaper flights, will only increase the scale of these challenges.

The aviation sector remains on an unsustainable path in terms of its environmental impacts. While aircraft have become individually less noisy over time, community annoyance from aviation noise until lockdown remained high, with flight path changes (including concentration) and the volume of air traffic s continuing to cause noise problems. Those living under flight paths or near airports will not welcome measures designed to boost aviation demand in the absence of any policies to fill the longstanding vacuum when it comes to any national strategy for noise management.

In terms of climate change similarly, there is no Government policy in place for limiting emissions in line with the UK's net zero target and no mechanism for holding the aviation sector to account for its own promises on cutting CO2. All official projections to date have suggested that total UK aviation emissions will exceed the maximum level allowed for in the Committee on Climate Change modelling for net zero, which already anticipates aviation having the highest emissions of any sector by 2050. The proposed 'jet zero' council - charged with delivering the world's first zero carbon transatlantic flight - is a welcome initiative, but doesn't address the aviation emissions problem with anything like the scale or urgency required.

In 'Building back better for aviation'<sup>6</sup> AEF and other environmental groups set out how the government could use the opportunity represented by the slowdown in air travel to reset the UK's aviation strategy and, as the Prime Minister has put it, "build back better" by initiating a green recovery. Such a recovery would set aviation on a fairer and more sustainable course, while providing any support necessary for workers to shift to green jobs. Now is the right moment to put in place key measures to help ensure that in future the industry acts responsibly in terms of both emissions and taxation.

The joint briefing noted that flights from UK airports are overwhelmingly discretionary leisure travel by UK households in the top half of the income spectrum. The 15% of the UK population who fly frequently are responsible for 70% of all flights, with the 1% most frequent flyers accounting for close to a fifth of all flights by English residents. It argued that "Higher taxes, equitably levied, on flights from the UK would help both to reduce demand and to put the sector on a trajectory compatible with net zero. There are numerous taxes which could be combined to achieve this including: a frequent flier or air miles levy, which would be the most equitable instrument; VAT on plane tickets; introducing excise duty on aviation kerosene; raising Air Passenger Duty."

*Aviation Environment Federation*  
[www.aef.org.uk](http://www.aef.org.uk)

<sup>6</sup> See footnote 3