



Rt Hon Rishi Sunak MP / Rt Hon Simon Clarke MP
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

12th October 2021

Dear Chancellor of the Exchequer / Chief Secretary to the Treasury,

Aligning Aviation Taxes with Environmental Goals: open letter

We are writing to highlight the major discrepancies in how taxes are applied to the aviation sector, in advance of the spending review and budget. Aviation continues to be lightly taxed. The only tax applied to the industry is Air Passenger Duty which, in contradiction to the polluter pays principle, does not reflect the environmental costs caused by aviation. We believe that for aviation taxes to reflect these costs, they must be reformed to include a kerosene tax, VAT on tickets, and specific non-CO2 charges.

Partly as a result of this lack of taxation, UK aviation's emissions have increased by 125% since 1990, in direct contrast to the UK's overall emissions, which have decreased by 43% in the same period. Indeed, UK aviation emissions were higher in 2019 than they have ever been. At a time when the world's eyes are on the UK COP, and following your Government's decision to include emissions from international aviation and shipping in future carbon budgets, we need immediate taxation reforms to reflect your Government's vision of being world leaders in decarbonising aviation.

We believe that a kerosene tax should be applied to all fuel uplifted in the UK, as quickly as possible. Airlines do not pay taxes or excise duties for the kerosene they uplift in the UK. Clearly this is in contrast to ordinary road users, meaning that any driver that has ever filled up their car with petrol has paid more fuel duty than British Airways, Ryanair and Easyjet combined have ever paid on their flights.

The European Commission has proposed that taxes should be applied to all intra-EU flights, at a rate of €0.38/litre. The UK should not only match this proposal, but should consider going further. Failure to at least match the proposals risks increasing greenhouse gas emissions through tankering.

This would be an equitable way of raising revenue to address current demands on public finance. Previous research suggested that applying a lower rate of €0.33/litre to all fuel uplifted to UK-departing flights destined for EU and UK airports would raise £6.2 billion for the Treasury.¹

VAT is not currently applied to airline tickets. In the UK VAT has a long-established principle: a few essential goods and services, including bus and rail, are taxed at lower or zero rates, whilst most goods, including petrol, are taxed at the full 20% rate. The current approach to aviation clearly violates these norms. A first class airline ticket is in the same category as food and medicine. There is no rationale for treating air travel differently from most goods and services.

Charging VAT on tickets would bring the UK into line with many other developed economies. VAT or other sales taxes are applied to domestic tickets in 23 EU countries,² Australia, Canada, the USA and others. We believe that VAT should be immediately applied at the full 20% rate on all first, business and private jet tickets.³ This means that those with the greatest ability to pay, that are causing the most climate damage, are charged more accordingly.

Historically the focus on emissions from aviation has always been on carbon, but aviation produces other emissions which produce significant additional warming effects (notably contrails and nitrogen oxides). Best estimates of these effects are that these represent two thirds of aviation's total climate impact⁴ and, again, in contradiction of the polluter pays principle, these are not priced. An additional charge is needed to recognise this, and applying such a charge would be world-leading: no other country charges for the warming caused by these non-CO2 effects (yet).

Applying our suggested reforms will incentivise UK aviation to invest in the technological and other changes necessary to reach net zero, and will raise crucial funds for the Treasury that can be spent decarbonising both aviation and other sectors of the economy. They will help deliver future carbon budgets, and keep the UK on track to deliver our crucial shared 2050 goal.

We would be very happy to discuss these proposals with you, and would like to hear your thoughts on them, including how you might take these proposals forward. We look forward to your reply.

¹<https://op.europa.eu/en/publication-detail/-/publication/0b1c6cdd-88d3-11e9-9369-01aa75ed71a1>

² https://www.transportenvironment.org/wp-content/uploads/2021/07/2019_05_Tax_report_briefing_web_0.pdf

³ As defined under existing APD regulations: ie all standard and higher rate tickets.

⁴ https://ec.europa.eu/clima/news/updated-analysis-non-co2-effects-aviation_en

Yours sincerely,

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