

AEF response to The Scottish Government's consultation on a Scottish replacement to Air Passenger Duty

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AEF is the principal UK NGO concerned exclusively with the environmental impacts of aviation. Supported by individuals and community groups affected by the UK's airports and airfields or concerned about aviation and climate change, we promote a sustainable future for aviation which fully recognises and takes account of all its environmental and amenity effects. As well as supporting our members with local issues, we have regular input into international, EU and UK policy discussions. At the UN we are a leading representative of the environmental umbrella organisation ICSA, which is actively engaged in the current talks aimed at agreeing global climate measures for aviation.

Question 1(a): Do you agree with our strategic and policy objectives for improving Scotland's air connectivity? Please answer yes or no.

[Our objective is to enhance Scotland's connections to new point-to-point destinations as well as enhancing services to key global hubs... The Scottish Government has long called for the devolution of APD to the Scottish Parliament, believing the tax to be an increasing burden on airports, airlines and passengers and holding back air route development in Scotland.]

No.

Question 1(b): Please explain your answer to Q1(a).

While it is clearly for the Scottish Government to determine its own policy objectives, we would urge you to independently assess rather than assume based on industry-funded analysis:

- (i) whether cutting APD will increase traffic and connectivity as envisaged
- (ii) more significantly, whether increasing air traffic will – in itself – bring economic and social benefits

In relation to point (i) it is worth noting the experience in Northern Ireland. On 1st January 2013, APD was abolished on long-haul routes from Belfast International Airport. One of the justifications had been the competition faced from Dublin in attracting passengers away from Belfast on one of its busiest long-haul routes to New York (Newark). Traffic levels had declined from 92,212 in 2010 to 83,607 in 2012. But following the abolishment, passenger numbers rallied slightly to 85,146 in 2013 before falling to their lowest level in 5 years in

2014 with just 82,958 passengers. The latest figures show further decline in passenger numbers on this route – in 2015 only 69,258 passengers flew on the Belfast – Newark route¹.

The report commissioned by the Northern Ireland Department of Enterprise, Trade and Investment into whether APD reductions should be rolled out more widely, published in December 2014, concluded:

167. The analysis shows the most likely outcome from a reduction in APD would deliver a small positive net economic benefit (and that is based on a lower tax cost), however given that benefits reduce year on year and the risks and uncertainties identified above, a strong case for change has NOT been made.

168. Given the scale of cost of reducing or abolishing APD and the levels of deadweight identified, DETI may wish to consider a more direct targeted intervention. One example could be a programme to stimulate route development to primarily business destinations (rather than holiday destinations).

The reference to ‘deadweight’ relates to anticipated increases in leisure travel. The report found:

The rationale for reducing APD is to stimulate economic development, through either increased business traffic and/ or increased inbound tourism. However reducing APD is a very broad intervention and one of the biggest impacts is to increase outbound tourism (effectively a NI import). Business travellers are less price sensitive and it is uncertain that a reduction in APD would lead to the establishment of new routes to business destinations. Therefore it may not be the most effective way to stimulate the desired response from the industry.

This finding has relevance to the question (ii), namely even if an APD cut does increase traffic, is this economically desirable and will it improve connectivity as anticipated?

A 2013 report by consultancy CE Delft² assessed the academic literature in relation to aviation and connectivity. It found that among the various studies identifying a correlation between connectivity and economic activity, none provided convincing evidence on the direction of causation. In other words, while high levels of economic activity and trade are often observed in places with good aviation connectivity (a high number of direct connections to different destinations), it was not possible to show whether people fly more as a result of trade links having developed or whether the provision of direct routes encourages trade to grow.

In relation to aviation activity and economic performance, the report found that there was some evidence of a two-way causal relationship between aviation activity and regional economic performance. In other words, at a regional level, it was possible for aviation to be both a cause and a consequence of economic activity. However:

¹https://www.caa.co.uk/uploadedFiles/CAA/Content/Standard_Content/Data_and_analysis/Datasets/Airport_stats/Airport_data_2015/Table_12_1_Intl_Air_Pax_Route_Analysis_2015.pdf

²www.aef.org.uk/uploads/CE_Delft_2013_Aviation_Policy_Development_Framework.pdf

(1) It was not clear whether there was an increase in total economic activity or whether regions with airports grow at the expense of surrounding regions without airports (there was no evidence that aviation activity caused an increase in economic activity at a national level), and

(2) While in remote (or poorer) regions an increase in transport activity could act as a catalyst for economic activity, in 'core' regions such as cities, where 'agglomeration effects' had already been exploited, economic activity appeared to spur development of transport links rather than the other way round.

The point was succinctly put by Jonathan Ford, chief leader writer at the Financial Times, in a recent article³ (16th May 2016) about South East runway expansion: *"We need to remember that most air travel is for leisure, and that airline routes follow economic activity not create it."*

Airports and airlines periodically commission consultants, either to produce both produce growth forecasts (for example in the context of 'master plans' which typically overestimate likely passenger and air traffic growth) or to generate analysis on the relationship between aviation and the economy.

You are of course aware of the analysis commissioned by the aviation industry from PwC to on the demand impacts of removing APD in Scotland, which anticipates that significant economic benefits would arise from such a change. The UK Treasury, we understand, considers the PwC approach to overestimate any productivity benefits (for example through the establishment of new routes) associated with APD changes, however.

We note, relatedly, that the robustness of the PwC work for the Airports Commission on the potential economic impacts of a new runway, which used a similar model for predicting wider economic impacts, has been questioned in a number of respects by the Commission's economic advisers⁴, including on the basis of:

- Too much weighting being given to the assumption that increased seat capacity will lead to wider benefits (for example in terms of increased trade), given that the direction of causality is in some cases unclear
- Likely double counting between the direct and wider impact channels; and
- Inexplicable results, such as GDP impacts of more than twice the size of the direct welfare and wider economic benefit gains (while it might be expected that they would be lower).

³ <https://next.ft.com/content/6db05608-18e7-11e6-b197-a4af20d5575e#ixzz48o6oQR3U>

⁴ Economy: expert panellist wider economic impacts review:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/438981/economy-expert-panelist-wider-economic-impacts-review.pdf

<http://www.aef.org.uk/uploads/Economic-impact-of-expansion-under-a-carbon-cap-FINAL.pdf>

They conclude: *“Overall, therefore, we counsel caution in attaching significant weight either to the absolute or relative results of the GDP/GVA SCGE approach (PwC report) within the Economic Case”*.

The Chair of the Treasury Select Committee Andrew Tyrie has argued more generally that the Airports Commission’s economic case for expansion, built around the PwC modelling, was opaque, and should not be relied upon by decision-makers⁵.

Question 2: How could a Scottish replacement to APD help achieve these objectives?

We consider this to be wrongly framed. Air connectivity objectives – even if they are the right ones – should not be viewed in isolation but only alongside other objectives, for example in relation to tackling climate change, improving public health and quality of life, and ensuring that taxes are designed to raise sufficient public finance in a way that aligns with social justice objectives.

We have submitted a detailed response to the SEA consultation, highlighting the importance of considering the impacts of the proposed change not just in terms of direct environmental consequences (kg of CO₂ or decibels of noise) but in terms of the achievement or otherwise of environmental objectives.

⁵ <http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news-parliament-2015/airport-expansion-chairs-statement-15-16/>