

HM TREASURY CONSULTATION ON AVIATION TAX REFORM RESPONSE FROM THE GATWICK AREA CONSERVATION CAMPAIGN

The Gatwick Area Conservation Campaign is the principal environmental group seeking to protect and improve the environment in the area affected by Gatwick Airport's operations with particular regard to noise, congestion, air quality and light pollution. GACC also seeks to diminish the wider environmental impact of the operations of the airport, and the aviation activities it facilitates, including climate change impacts.

Aviation taxation

The Treasury's consultation fails to address significant aviation tax anomalies. These which perpetuate an environment in which the aviation industry makes decisions without regard to their societal and environmental impacts. They lead to economically inefficient oversupply of the most environmentally damaging form of transport. There is, for example, no examination of the case for charging VAT and duty on fuel or VAT on air tickets. The consultation therefore does not, in our view, deliver the Budget 2020 commitment to consult on aviation tax reform in any meaningful way.

More specifically, the measures proposed in the consultation fail to achieve the government's own objectives. In our view it cannot reasonably be argued that current aviation taxation arrangements, or the modified arrangements proposed in the consultation, currently align with the government's environmental objectives or that aviation makes a fair contribution to public finances.

If the government is serious about achieving its objectives it needs to think more broadly. It should, for example, levy VAT on air tickets and air freight, and duty on aviation fuel. It should also seek international agreement on taxing jet fuel. It makes no sense for the most environmentally damaging form of transport to benefit from tax advantages that the Treasury has previously estimated are worth in excess of £10 billion per annum.

In this context we note that the Climate Change Committee (CCC) has advised that:

"Measures should be put in place to limit growth in [aviation] demand ... These could include carbon pricing, a frequent flyer levy, fiscal measures to ensure aviation is not undertaxed compared to other transport sectors (e.g. fuel duty, VAT), reforms to Air Passenger Duty, or management of airport capacity¹".

The government should address these recommendations.

Two sets of actions are required. First overall tax paid by the industry should be increased. Aviation is currently substantially under-taxed relative to other

¹ Committee on Climate Change, letter to Secretary of State for Transport 24 September 2019

sectors and some other transport modes. This stimulates unsustainable demand for air travel, reduces tax revenues and adversely impacts domestic tourism. Secondly, aviation taxes should better target the environmental harm caused by flights, taking account of the size and type of aircraft flown, the emissions generated and class of flight.

Domestic Air Passenger Duty (questions 1-10)

We strongly disagree with the government's proposal that the effective rate of domestic APD should be reduced. There are numerous arguments against this proposal.

We note that that the Union Connectivity Review Interim Report does not advocate a reduction in domestic APD as a whole, merely noting the need to consider "*the appropriate rate of Air Passenger Duty for journeys not realistic by rail*".

We also note that numerous organisations, including the CCC, have advised government that aviation demand needs to be managed, including through fiscal measures. Any reduction in aviation taxes would undermine that aim in an ill-conceived and unnecessary way.

As regards shorter routes where air transport competes with other transport modes our views are:

- Air travel is invariably the most environmentally damaging mode. On London to Edinburgh or Glasgow journeys (which together account for nearly 30% of all UK domestic air passengers) a return economy class air journey emits some 260kg per passenger whereas a return rail journey emits some 50kg/passenger². It is well-established that short air journeys are fuel/emission intensive and impose high noise costs on communities
- Air travel is already generally the cheapest option. At the time of writing a return London - Edinburgh flight was priced at £66 whereas a return train journey was a minimum of £95. The lower emission option attracts a 45% price premium.
- For these journeys the government's proposals would further reduce the costs of the most environmentally damaging form of travel, increasing emissions and other climate impacts whilst offering no conceivable union or other policy benefits. This makes no sense.
- APD reductions might transfer passengers from rail to air thereby adversely impacting public finances by reducing the profitability of competing rail services, which are currently a government responsibility.

² Carbonfootprint.com

- The government's proposal is inconsistent with emerging policies internationally. Several countries are banning or increasing the costs of air services where there is a realistic lower emissions alternative such as rail. For example in April 2021, France banned short-haul internal flights when rail alternatives could cover the journey in 2½ hours or less.

On routes where there is no realistic alternative to air travel for time-critical passengers, for example services to and from Northern Ireland, our views are:

- The price of air travel should reflect its full environmental and societal impacts, in line with the polluter pays principle
- Achieving this would require an increase in air fares, not a reduction
- There is little evidence that a reduction in APD would translate into lower fares, more services or more demand. Reductions in domestic passenger numbers and the surplus of capacity are likely to mean that fares will be significantly lower than they would otherwise have been for some time. And previous APD cuts, for example in Northern Ireland, have not had a demonstrable impact on passenger numbers
- There is no regulatory mechanism to ensure that any APD reduction would be passed onto consumers rather than being retained by airlines.

Reducing APD on any air service is inconsistent with government's net zero policies, conflicts with emerging policies internationally and would undermine the UK's credibility ahead of COP26.

The government should instead increase taxes on domestic air transport, so that aviation fully covers its externalities, demand is reduced to levels consistent with net zero emissions and lower emission travel alternatives become more attractive.

In parallel the government should invest in the lowest emission forms of transport, particularly rail, so they compete more effectively with air transport.

The government should also require airlines to advise prospective passengers of the emission and other adverse impacts of domestic air travel, to ensure travellers are aware of the climate impact of their journey and encourage behavioural change.

If domestic APD is to be reduced on any services the change should be limited, by a banding mechanism, to routes for which there is no realistic travel alternative.

Exemptions from domestic APD

We note that passengers carried on flights leaving from airports in the Scottish Highlands and Islands regions are already exempt from APD. This further reduces the case for reducing domestic APD.

We also note that there is no APD charge for passengers on flights supported by Public Service Obligation grants. The exemptions should be removed so

passengers on these flights are required to pay more cost-reflective fares and the level of route subsidy is more transparent.

International Air Passenger Duty (questions 19-24)

If APD is to be retained, we agree with the government's initial policy position that the number of APD distance bands should be increased. However, APD rates should not be reduced for any length of international flight.

APD should be charged according to distance flown. Therefore we support the four distance bands. These should be airport to airport distance, and not the distance from the UK to the capital city - which has led to anomalies in the past. The rate of tax should increase, per mile, for the longer distance bands, so the real climate impact of the flight is acknowledged.

In addition, total tax take from APD should be increased. The level of international APD should, amongst other things, reflect aviation's full adverse environmental and societal impacts, in line with the polluter pays principle, and the need to restrict demand so as to reduce aviation's emissions and its wider climate, noise and other adverse impacts.

The government should also require airlines to advise prospective passengers of the emission and other adverse impacts of international air travel, to ensure travellers are aware of the climate impact of their journey and encourage behavioural change.

Taxation of air freight

Because APD is a passenger tax there is no taxation of air freight services including of freight only aircraft. Freight only services are generally provided by aircraft that are older, produce higher emissions and are noisier than those used for passenger services. Air freight services should be taxed at rates that reflect the adverse environmental and societal impacts they cause, in line with the polluter pays principle, and the need to restrict demand so as to reduce aviation's emissions and its wider climate, noise and other adverse impacts.

Frequent flyer levy (question 25)

We do not agree with the government's assessment that APD should remain as the principal tax on the aviation sector. Aviation taxation needs to achieve both revenue raising and environmental goals. APD currently fails to achieve either in a satisfactory way. Higher rates of APD might help achieve a fairer revenue contribution but are unlikely to achieve the necessary environmental goals.

A frequent flyer (or air miles) levy would help curb growth in demand without penalising those who make only moderate use of air travel. We believe it would be an effective, and politically and publicly appealing, way to reduce UK aviation emissions while maintaining access to air travel for all members of British

society. We therefore encourage the government to consider it, and equivalent measures, more thoroughly and constructively.

We do not agree that data collection and administration are reasons to reject a Frequent Flyer Levy.

**Gatwick Area Conservation Campaign
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