

# HM TREASURY 'AVIATION TAX REFORM: CONSULTATION'

Response from Transform Scotland

14 June 2021

## 1. About Transform Scotland

We are Scotland's alliance for sustainable transport. We campaign for walking, cycling and public transport to be the easiest and most affordable options for everyone. Our diverse membership brings together public, private and third sector organisations from across Scotland. We are politically independent and strictly science-based; we are a registered Scottish Charity (SC041516) and Company (SC181648).

## 2. The government's initial policy position on domestic APD

### **1 Do you agree with the government's initial policy position that the effective rate of domestic APD should be reduced? In your view, what would be the positive and negative effects of such a change, particularly in light of the government's objectives for aviation tax?**

Transform Scotland strongly objects to the proposal put forward in this consultation to reduce APD on domestic flights. On the whole the proposals will be damaging to the UK's climate objectives and appear to be based on a weak economic argument. This consultation not only misses the opportunity to effectively address aviation taxation in the context of the climate crisis but instead puts forward proposals that would be actively detrimental to the UK's ability to reduce emissions.

While covid has had a devastating effect on all types of travel within Scotland and between Scotland and the rest of the UK, the primary objective for rebuilding travel should be to establish a healthier, fairer and carbon free transport system. Over the past years we have seen a shift from air travel to rail travel between the Central Belt of Scotland and London, which has been a positive development for climate emissions in the transport sector and should not be reversed. The proposals for reducing taxation on domestic air travel threaten to reverse this trend by creating a financial incentive for flying over travel by rail.

This proposal also stands in marked contrast to some of the proposals for reducing the number and necessity of domestic flights in France and other European countries that are currently being discussed, such as banning domestic flights on routes where there are fast rail alternatives. It also stands in opposition to the view of the Scotland Government Cabinet Secretary for Net Zero, Energy and Transport, stating that reducing APD is not compatible with climate change goals and that his party has no intention of changing their position on this in the future.<sup>1</sup>

The consultation documentation provides no information on what the new rates for APD would be. Nor does it indicate how high the desired increase in domestic air travel that the reform is meant to achieve. As such, it is difficult to determine whether the changes would lead to the desired effects set out in the consultation. In particular, it is unclear whether the increased rates for long distance air travel and associated reduction in travel would in fact outweigh the expected increase in domestic air travel. The consultation document states that the aim is to ensure that "the overall proposed package of reforms balances our domestic connectivity and environmental goals". However, as there are fewer alternatives for international travel, it is questionable whether an increase in APD would have a positive environmental impact. On the other hand there are practical rail and road alternatives on domestic routes and more potential for shifting towards more sustainable options. A reduction in domestic APD would also reduce taxation of private jets, which are the most polluting flights per mile and passenger.

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<sup>1</sup> Michael Matheson MSP, speaking at Transform Scotland event on 23 April 2021. Available at <https://www.youtube.com/watch?v=NB6u-NKGrLM>

## **2 What evidence can you provide about the impact of an effective reduction in the domestic rate of APD on Union and regional connectivity?**

We support the statement that connectivity is important for social cohesion and economic development, however we firmly believe that this does not necessitate air connectivity. Instead we would question the premise in the consultation that road and rail are impractical for certain domestic journeys. While there may be a small number of journeys between island communities where air connectivity is essential, most journeys within the UK are within a reasonable distance and served by sufficient road and rail infrastructure to be travelled by road, rail or even ferry. There are certainly areas or journeys within the UK that are not easily accessible by rail. However, given the context of the climate crisis and a historic lack of investment in rail infrastructure, the focus should not be on reducing the cost of air travel but to invest in and provide a rail network that not only improves long-distance but also local and regional connectivity.

This also raises the question of whom increased air connectivity serves. Residents of remote areas of the country already benefit from various schemes to increase air connectivity. In Scotland, APD is not charged on outbound flights from the Highland and Island region, there is an existing Air Discount scheme for the region, and there are a number of PSO routes. The most remote areas of the country, which the domestic proposals supposedly support, would not be the main beneficiaries of the policy. The main benefits would likely go to areas that are less remote and are therefore currently not additionally subsidised. It is also not clear how the return leg exemption would be applied to flights that are already APD exempt. If the aim is to improve connectivity for remote regions then the proposals need to be more targeted and would likely duplicate existing policies.

## **3 How would a reduction in the effective rate of domestic APD affect airlines? Will the benefits be passed onto consumers in ticket prices or retained by airlines?**

No views.

## **4 Which domestic air routes, if any, are likely to be introduced/restart following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide?**

While we do not hold any evidence on specific routes, the example of the Highlands and Islands region demonstrates that scrapping or reducing APD is not sufficient to make economically unviable routes viable. Despite APD not being applied to flights departing from the Highland and Island region, there is a large number of subsidised PSO routes that primarily serve the islands and residents benefit from the existing air discount scheme, which are necessary to maintain these routes. While there may be marginal routes that may benefit from the reduction of APD, the proposals are unlikely to address the connectivity issues that this proposal aims to address. Routes that reach underserved communities are likely to require a more targeted approach. As set out above, this proposal is likely to primarily and disproportionately benefit busy and already economically viable routes. This is particularly pronounced in the context of Scotland where the APD exemption for the Highlands and Islands region would mean that this region that is already less connected to the rest of the country would see fewer benefits than the well connected region of for instance the Central Belt.

## **5 Which existing domestic air routes, if any, would benefit from an increased number of services following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide?**

See answer above.

## **6 By how much would you estimate that the number of passengers currently flying domestically increase?**

Given the lack of information on the scale of reduction of APD on domestic flights, it is not possible for us to judge to which extent these proposals would increase the number of domestic passengers. However, as mentioned above, increasing the number of domestic passengers during a climate crisis should not be considered a desirable outcome.

## **7 What could the environmental impact of reducing the effective domestic rate of APD be? How could any negative impacts be mitigated?**

Flying is by far the most climate-damaging form of travel. Reducing the cost of flying, especially in a domestic context where there are less environmentally damaging viable alternatives, sends the wrong message and undermines confidence in the UK Government's own climate goals. The mitigation measures set out in the consultation document are not appropriate for the scale of the climate crisis that we are facing and the role that aviation plays in contributing to this crisis. 'Sustainable Aviation Fuels' and measures to reduce the carbon emissions of flying, while an improvement, are not delivering the scale of carbon reduction that we need to reach emission goals and carbon offsetting displaces the responsibility for the mitigation of carbon emissions but does effectively reduce emissions. While carbon neutral flights may be technologically possible and available in the future, they will not be available at scale in the time frame in which this proposed change to APD would be implemented, so do not provide an effective mitigation measure either.

### **8 What could the impact of reducing the effective domestic rate of APD be on other modes of transport (e.g. road/rail)?**

The cheap price of flying is already encouraging people to travel by plane rather than rail, even where there is an excellent rail connection. This proposal to reduce APD would exacerbate this problem even further. Instead the focus should be on creating financial incentives that encourage people to choose sustainable forms of transport. Where connectivity is considered a barrier to using sustainable transport, the Government should follow best practice by assessing how connectivity can be improved considering improvements to all modes of transport, rather than assuming that air travel is best suited to improving connectivity.

### **9 If the effective rate of domestic APD is reduced, would you favour the introduction of a return leg exemption or a new domestic rate? What would you see as the comparative risks and benefits of these options?**

We do not take a view on this as we oppose the reduction of APD on domestic routes.

### **10 Is there an alternative approach to reducing the effective rate of APD on domestic flights, that you think would be more appropriate than either of the options identified?**

As stated above, we do not support the reduction of APD.

## **3. A return leg exemption / A new band for domestic flights.**

### **11 What are your views on the way a return leg exemption could operate as set out in paragraph 2.8? What are the benefits and risks of this proposal? What amendments would you suggest, if any?**

### **12 Do airlines currently differentiate between single and return tickets in their booking systems and, if so, how?**

### **13 What evidence could airlines provide to HMRC to demonstrate that a passenger was travelling on a return ticket?**

### **14 If the return leg exemption were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to them to provide evidence to HMRC on their APD liabilities?**

### **15 Are there any particular considerations around the application of a return leg exemption to business jets, in light of how business jets are operated?**

### **16 Do you agree with the government's initial position that a new domestic band would be the most appropriate approach to reducing the rate of APD on domestic flights?**

### **17 What are your views on the way a new domestic rate could operate as set out in paragraph 2.11? What are the benefits and risks of this proposal? What amendments would you suggest, if any?**

### **18 If a new domestic rate were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to them to provide evidence to HMRC on their APD liabilities?**

While we do not take a position on questions 11 to 18, we would like to highlight that APD is currently not charged for flights departing the Highland and Island region of Scotland and it is unclear how these proposals would affect flights to and from this region or how it would be applied.

## 4. International distance bands.

**19 Do you agree with the government's initial policy position that the number of APD distance bands should be increased? In your view, what would be the positive and negative effects of such a change, particularly in light of the government's objectives for aviation tax?**

**20 What could the impact on the environment of a change to the banding structure? How could any negative environmental impacts be mitigated?**

**21 What evidence can you provide about the impact of an increase in the number of APD distance bands on international connectivity?**

**22 Which of the policy options for increasing the number of international distance bands do you think is most appropriate? Please explain your answer.**

**23 Is there an alternative banding structure that could better meet the government's objectives as outlined in paragraph 1.1?**

**24 If a new international distance band structure were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to provide evidence to HMRC on their APD liabilities?**

We support the introduction of a larger number of international distance bands that would reflect the increased environmental impact of longer distance flights. However, given that for long distances there are few alternatives to flying, we would question whether this would have a significant environmental impact unless APD on international distance bands was set at such a high level as to discourage a large proportion of long distance flights being made. As set out above, the mitigation measures proposed are unlikely to significantly reduce the environmental harm done by flying. Instead the focus for decreasing the environmental impact of aviation should be on domestic flights where there are significant gains to be made.

## 5. Frequent flyer levy.

**25 Do you agree with the government's assessment that APD should remain as the principal tax on the aviation sector? Would you propose any alternative tax measures which could further align the aviation tax framework with the government's environmental objectives?**

We support the introduction of measures that disincentivise flying and would reduce carbon emissions by shifting travel to more sustainable forms of transport. A FFL could be one such measure and would be designed to primarily discourage those who fly often. The consultation paper asserts that frequent flyers already pay more aviation tax as APD is passed on to passengers by the airlines. This ignores that FFL schemes are designed to tax frequent flyers at a higher rate than people who rarely fly. A small minority of passengers take the majority of flights and a frequent flyer levy could be a useful tool to target this specific group.

We would also like to note that while some proposals for a FFL would see a FFL replacing APD, a FFL scheme could also be structured to work alongside APD. Most importantly though, instead of proposing reducing taxes on domestic flights, policies should be aimed at reducing emissions, which could include a frequent flyer levy, applying fuel duty to aviation fuel or any other measure that encourages passengers to opt for more sustainable transport options.

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**Scotland's alliance for sustainable transport**

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