



Scottish Council for  
Development and Industry

## POLICY SUBMISSION

### REFORM OF AIR PASSENGER DUTY

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SCDI is an independent and inclusive economic development network which seeks to influence and inspire government and key stakeholders with our ambitious vision to create shared sustainable economic prosperity for Scotland.

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## **Reform of Air Passenger Duty (APD)**

1. SCDI is an independent membership network that strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI's membership includes businesses, trades unions, local authorities, educational institutions, the voluntary sector and faith groups.

### **Executive Summary**

- Reforms to APD should support the UK Government's objectives of further internationalising the UK economy and more balanced regional growth. An increase in APD would hit the aviation industry's ability to act as an enabler.
- Extension of APD to helicopters serving offshore energy industries in the North Sea would risk investment and employment through the relocation of projects and operations to other North Sea sectors or elsewhere in the world. Helicopters serving these industries should continue to be exempt from APD.
- Given its relatively greater distance from major markets, the issue of air passenger duty is of particular importance to the Scottish economy and an increase in APD would threaten the long term viability of some routes and undermine the prospects of new routes, restricting trade, investment and tourism. It is especially important for Scotland that the UK Government does not further erode the competitiveness of UK aviation by increasing APD.
- In the interests of regional growth and fairness, airports in regions of the UK without viable surface alternatives to the UK's international hub airports and which will not benefit from public investment in High Speed Rail to provide an alternative to short haul air travel, should be banded in a lower rate of APD.
- As a lifeline service, air travel in the Highlands and Islands differs from other parts of the UK, and its high costs fully justify retention of the exemption from APD of flights from its airports. Given these costs, there is a strong economic case for extending the exemption to flights to the Highlands and Islands.
- With a firm commitment from the Scottish Government to utilise it to support connectivity and attract new routes, SCDI would support devolution of APD.

### **Reform of Air Passenger Duty**

2. The UK Government's fiscal and economic strategies prioritise export-led growth (including inward investment) and greater support for the UK's tourism industry. Domestic and global connectivity via aviation is a key enabler for these strategies. UK aviation tax rates are the highest of any major European country and are deadweight on the UK aviation industry as it struggles with high and rising fuel costs to recover from the recession. The UK Government must put a stop to further increases in APD and reform UK aviation tax rates with regard to the economic circumstances, and the rates and trends in competitor economies.
3. The UK Government states that its objectives are "a simple tax system for air transport services in the UK, which does not hamper growth, which ensures a fair

contribution toward the public finances and which is consistent with the Government's determination to reduce global emissions". APD was introduced to cover the environmental costs of aviation, an objective which is supported. However, further increases to APD would mean that the industry pays far in excess of its environmental costs. Reforms to APD should rebalance the system towards the principles of sustainable growth, fairness and consistency with climate change impact, rather than what appears a focus on revenue-raising.

4. Incorporation of aviation into the EU's Emissions Trading Scheme from 2012 will, in effect, result in passengers being taxed twice for the environmental impact of aviation. According to the principle that environmental taxes should more closely reflect impact, this suggests that the UK Government should then abolish APD.

### **Extension of Aviation Tax and Definition of 'Business Jets'**

5. SCDI is very concerned by the Government's proposal to extend air passenger duty to private passenger flights, including helicopters, at the highest standard rate irrespective of distance traveled. This has been estimated by Oil & Gas UK and the air traffic service NATS as potentially costing the industry £165 million per annum. Helicopters are the only viable method of transport for offshore workers. At Aberdeen Airport last year, there were 485,500 helicopter passengers transported around the wider North Sea and a number of workers are transported to the Northern Isles on a fixed wind service then taken offshore to the more remote installations under one industry contract. Helicopter transportation is a cornerstone of the industry's success and is expected to be used by offshore renewables. The North Sea is a high-cost province which competes globally for highly-mobile investment. Following the recent increase in the Supplementary Corporation Tax, this proposal further risks investment and jobs through the relocation of projects and operations to other North Sea sectors or elsewhere in the world. This would have an impact across the supply chain and on UK tax receipts. The Government recognises that there may be economic reasons for exempting flights from the tax, and SCDI strongly recommends that helicopters serving the North Sea's energy industries should be exempted.

### **Regional Economies**

6. Given its relatively greater distance from major markets, the issue of air passenger duty is of particular importance to the Scottish economy and Scotland's targets to increase the value of its exports and tourism revenues. The withdrawal of the Scottish Government's Route Development Fund due to EU state aid rules has set back efforts to develop direct international air routes. Passengers flying to and from Scotland pay APD twice if they fly via another UK airport. Ireland, a major competitor country to Scotland in sectors such as tourism, recently reduced the burden on aviation in order to attract more visitors.
7. A report from York Aviation published in 2011 found that the most recent rise in APD could reduce the number of passengers to, from and within Scotland, by 1.2 million over the next three years, including 150,000 inbound international visitors.

8. Such a drop in demand would threaten the long term viability of some routes and undermine the case for new routes, restricting trade, investment and tourism. The cost to the Scottish economy would up to £77 million in lost tourism spend. It is especially important for Scottish business growth that the UK Government does not further erode the competitiveness of UK aviation by increasing APD.
9. Within Scotland, there are particular regional economic considerations for the north of the country. This is one of the most peripheral regions of the UK, but already makes a large contribution to the UK's economy, exports and finances - particularly through its offshore energy, food and drink, and tourism industries - with the potential to deliver even more and help to drive economic recovery. Access to markets within the UK and globally are vital to their prospects, and, given the region's geographic location, air travel is usually the only viable option.
10. SCDI is very strongly supportive of the UK Government's ambitions for High-Speed Rail and firmly of the view that its planning should include Central Scotland. We believe that it will enable more balanced regional growth and, by reducing the number of short haul flights in the UK, progress with the UK's climate change targets. However, even with High-Speed Rail constructed to Central Scotland, the surface journey between the north of Scotland and the UK's international hub airports would be well over the 3 to 4 hour time threshold which is considered competitive with air travel. In the interests of more balanced regional growth and fairness, overall UK Government transport policy should support those peripheral regions, such as the north of Scotland, which will not directly benefit from High Speed Rail and may be relatively disadvantaged as a business location. This would further increase backing in Scotland for the project. SCDI has called for the ring-fencing of slots at the UK's international hub airports for flights from regions without competitive alternative transport options. In relation to APD, SCDI recommends that those airports in regions of the UK without viable surface alternatives to air transport to the UK's international hub airports and which will not benefit from the Government's investment in High Speed Rail to provide an alternative to short haul air travel, should be banded in a lower rate of APD. SCDI recognises that this is a proposal which would require further development between regions in this category and the UK Government.

### **Highlands and Islands' Exemption**

11. As a lifeline service vital to businesses, such as tourism, and access to services and opportunities, air travel in the Highlands and Islands differs from other parts of the UK. The costs are high because of the relatively low number of passengers, high costs of fuel at the airports and restrictions on opening hours. The previous UK Government exempted flights from Highlands and Islands' airports from APD in recognition of these facts. This exemption must be retained.
12. APD was, however, retained on flights to the Highlands and Islands from the rest of the UK. The Scottish Government has recently made business travel ineligible for its Air Discount Scheme. The proposed new APD rates would, therefore, have

a significant impact on communities, businesses and tourism in the Highlands and Islands. SCDI believes that there is a strong case for extending the exemption from APD to flights to Highlands and Islands' airports. This would support regional growth and, SCDI understands, not be at a significant cost.

## **Devolution**

13. The Scottish Government has said that, if APD is devolved, it would exercise its new powers to support Scotland's connectivity and attract new routes. With a firm commitment from the Scottish Government to maintain and enhance the competitiveness of the aviation sector, SCDI would support devolution of APD.

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