BATA Submission to HM Treasury – Budget 2015

The British Air Transport Association (BATA) welcomes the opportunity to submit evidence to HM Treasury’s public consultation exercise ahead of the Budget 2015. BATA is the trade body for UK-registered airlines. Our members - British Airways, DHL, easyJet, Flybe, Jet2.com, Monarch, RVL Group, Thomas Cook, Thomson Airways, Titan Airways and Virgin Atlantic – employ over 74,000 people, and served 133 million passengers and carried 1.1 million tonnes of cargo in 2013.

Air Passenger Duty (APD)

- Budget 2015 should transform our competitive position, boost the British economy, and make the significant challenges posed by devolution redundant, by abolishing APD during the new Parliament.
- 2016/17 rates should be set in line with this objective and there should be no further inflation increases.

Recent changes

Reforms to APD announced in the 2014 Budget and Autumn Statement were positive steps forward. We described the abolition of APD for children flying in economy as ‘an early stocking filler for families who save hard for holidays and visits to friends and relatives that will also boost UK tourism.’

Overall level

Despite the recent changes, it remains the case that most countries in the world do not levy an equivalent air passenger duty and APD remains the highest tax on flying in the world by some margin. The World Economic Forum ranks the UK last out of 139 countries for the competitiveness of its ticket taxes and airport charges.¹

The UK is one of just a handful of European countries to levy an air passenger duty, and in recent years many countries have abolished their equivalent taxes to become more competitive. For example:

- Ireland abolished their air travel tax in 2014;
- the Netherlands abolished their air passenger ticket tax in July 2009;
- Belgium abolished its air travel tax in 2008; and
- Denmark phased out its air passenger tax in 2006-07.

Those EU countries that do levy an equivalent tax (such as Germany, France, Austria and Italy) have much lower rates and raise significantly less revenue than APD. For example, Germany has the second highest air passenger tax in Europe, but it raises £2.4 billion less than APD.

<table>
<thead>
<tr>
<th>Tax revenue raised in 2014</th>
<th>£ bn</th>
<th>€ bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK – Air Passenger Duty²</td>
<td>3.14</td>
<td>4.20</td>
</tr>
<tr>
<td>Germany – Aviation Tax³</td>
<td>0.75</td>
<td>0.99</td>
</tr>
</tbody>
</table>

Furthermore, the gap between UK APD and the German tax are forecast to increase significantly over the next 5 years, partly because UK rates are assumed to increase by inflation each year, whereas German rates are not been uprated each year (they were reduced in 2012).

<table>
<thead>
<tr>
<th></th>
<th>£ bn</th>
<th>€ bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK – Air Passenger Duty – for 2019/2020</td>
<td>3.80</td>
<td>5.09</td>
</tr>
<tr>
<td>Germany – Aviation Tax – for 2019</td>
<td>0.77</td>
<td>1.03</td>
</tr>
</tbody>
</table>

**Changing policy context – devolution to Scotland**

Over the last couple of months there has been a significant change in the policy context around APD. In November, the Smith Commission report confirmed that the power to charge tax on air passengers leaving Scottish airports will be devolved to the Scottish Parliament, and on 22 January the draft clauses to implement the Smith Commission agreement were published.

The Scottish Government is publicly commitment to halving APD, with a view to full abolition, following devolution. On 28 December the Scottish Transport Minister called for the devolution to take place as soon as possible⁶ and at BATA’s annual dinner on 28 January, Alex Salmond MSP said “The Scottish Government is determined to reduce APD initially by half…” and described APD as “a millstone around the neck of this industry and of the Scottish economy.”⁷

We respect your decision to devolve APD to Scotland and welcome the Scottish Government’s commitment. But we are very concerned on behalf of passengers in the rest of the UK. Having different APD systems with different rates, particularly where there is a land border, would create new market distortions and would be unfair to passengers across the UK.

- **Unfair** - because families and businesses across England and Wales, should not have to pay more tax to go on holiday, visit family and friends, or travel for business than families and businesses in Scotland.

- **Market distortions** – because the evidence from Northern Ireland and the Netherlands shows that passengers are prepared to travel across land borders to take advantage of lower tax rates. These changing patterns of demand means that airlines may make different decisions about the routes that they serve.

**The solution**

Devolution presents you with a new and unique opportunity to set a new course on APD. Abolishing APD during the next Parliament would make concerns about market distortions and unfairness for passengers in England and Wales unnecessary.

---

⁶ http://www.scotsman.com/news/transport/snp-calls-for-immediate-power-on-air-passenger-tax-1-3645004
⁷ http://www.travelweekly.co.uk/Articles/2015/01/29/51996/salmond+vows+to+cut+apd+and+tells+airlines+why+wait.html
passengers caused by devolution redundant, and, even more importantly, would deliver significant economic benefits to the country.

Abolishing APD would reduce the cost of business travel and make the UK a more attractive and internationally competitive tourist destination. Britain’s families would find it cheaper to go on holiday and visit friends and relatives across the country and overseas.

Furthermore, latest trade data has confirmed exports are still struggling. According to the British Chambers of Commerce APD ‘is a trade tax on global traders’. The CBI, IoD and many others have highlighted its damage. APD adds further costs to UK exporters, which European rivals either do not pay or pay significantly less, at a time when the Government is trying to encourage businesses to export to rebalance the economy for a sustainable recovery.

PwC published a report on the impact on the economy and Government tax revenues if APD were abolished in 2013. PwC’s robust and detailed economic assessment was underpinned by a Computable General Equilibrium model; similar to the one used by HM Treasury. The key results of the analysis were: 8

- Abolishing APD would result in an immediate boost to the level of GDP of 0.45 per cent in the first year, followed by continuing GDP benefits to 2020. Between 2013 and 2015 the economy would have been £16bn larger than under the current APD regime.

- The boost to GDP is driven by an expansion in investment and exports and increased business travel leading to business expansion and higher productivity. The modelling suggests that investment would increase by around 6% in first three years and exports (including earnings from foreign tourism) would rise by 5% over same period, with a net positive inflow of foreign tourists of 7% by 2020.

- The rise in output delivered by abolition could lead to 60,000 jobs being created across the UK economy by 2020.

- Abolition would pay for itself by increasing revenues from other taxes such as Corporation Tax, Income Tax, NICs and VAT. The modelling suggests that abolition could raise a net £500m in extra tax receipts in each of the first two fiscal years, falling to £100m by 2017-18.

- PwC repeated their analysis for a range of different APD cuts. The results suggest that the magnitude of the economic benefits is broadly proportionate to the scale of the cut. For example, the economic benefits of a 50% cut were found to be around half the size of a full abolition, and an increase in other tax receipts still makes that level of cut self-financing for the Exchequer.

BATA
13 February 2015