Airlines UK

Freedom to Grow

APD Report – the impact on connectivity and passenger growth of abolishing similar taxes in other countries

- UK APD is the highest European aviation tax for short haul and long haul flights by a long way.
- UK APD is the highest rate of tax for long haul flights in the both the OECD and rest of the world.
- Most countries do not tax air travel, and countries such as Ireland, the Netherlands and Belgium have abolished their equivalent tax after recognising the negative impact it had on their aviation sector and connectivity.
- Following the decision in the last Parliament to simplify the banding system and abolish APD for children, the Government should now finish the job and abolish APD for all other passengers during this Parliament to transform the UK’s international competitiveness, boost trade, increase productivity, encourage inbound tourism and support the travelling public.
- In line with this objective, the Government should abandon its policy of inflation-linked annual increases to APD rates – each year there is an increase, the UK becomes gradually and steadily less competitive.
- The devolution of APD to Scotland raises significant concerns about unfairness to passengers living in different parts of the UK and market distortions. The Scottish Government has said it plans to reduce Scottish APD – to be called Air Departure Tax (ADT) – by 50% from 2018, and abolishing it entirely when public finances allow.1 The UK Government could take a lead and eliminate these concerns by reducing APD rates by 50%, followed by abolition during this Parliament.
- If the Government is serious about achieving its vision for the UK as a standard-bearer of global free trade, in the post-Brexit environment, then removing APD must rise to the top of the Government’s to-do list. Only aviation can connect the UK to the emerging markets that are seen as vital to our continued prosperity. With APD, the UK levies a huge tariff on any foreign business person or tourists who might want to visit, and an unfair burden on holidaymakers working towards a hard-earned break abroad.

UK Air Passenger Duty

By increasing the cost of an air ticket from between £13 and £150 per journey (depending on class of travel and destination), APD currently acts as a major barrier to increasing trade, investment and tourism. It is a significant tax on inbound tourism and business travel alike that has increased exponentially since its introduction in the mid-1990s.

The last majority Conservative Government raised £343m from APD in 1995/96, the first full year the tax was applied, after introduction in the 1993 November Budget. Ten years later, the tax rates had been increased such that the total revenue raised was £905m (2005/06). Another ten years on and the revenue from APD was £3.1bn in 2015/16. Latest official forecasts from the Office of Budget Responsibility (OBR) indicate APD revenue will rise even further to £4bn in 2021/22.

Passenger numbers have grown over time, but tax receipt growth has outstripped passenger growth because the tax rates have been increased so much, particularly in recent years.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>APD Chargeable Passengers (millions)</th>
<th>APD Receipts (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995/96</td>
<td>52.4</td>
<td>343</td>
</tr>
<tr>
<td>2005/06</td>
<td>102.4</td>
<td>905</td>
</tr>
<tr>
<td>2015/16</td>
<td>109.3</td>
<td>3,077</td>
</tr>
</tbody>
</table>

Despite the positive reforms in 2015 and 2016 to exempt children and abolish the two further long-haul bands, APD remains the highest tax on flying in Europe, and one of the highest in the world.

In May 2015, the World Economic Forum published its latest biennial Travel and Tourism Competitiveness Report. The UK is ranked 137 out of 138 countries in their global Travel and Tourism Competitiveness Index for air tickets and airport charges.

In the WEF report, Britain trails behind European competitors such as Sweden (26), Spain (55), Italy (83), Germany (110) and France (114).

Countries outside of Europe that are actively encouraging the development of their aviation sectors rank highly, including Qatar (12), India (16), Turkey (22), United Arab Emirates (25) and China (38).

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

- Ireland abolished their air travel tax in 2014 to stimulate their economy;

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- the Netherlands abolished their air passenger ticket tax in July 2009 in response to a significant drain of passengers to airports in Germany and Belgium;  
- Belgium abolished its air travel tax in 2008; and  
- Denmark phased out its air passenger tax in 2006-07.

The limited number of 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.

The UK is therefore clearly at a competitive disadvantage as a result of its policies on taxing air passengers. Taking action to cut APD, as the Scottish Government is proposing to do, when the tax is devolved to Scotland from April 2018, would demonstrate that the UK is open for business as well as encouraging visitors and tourists.

After the Prime Minister’s Lancaster House speech on 17 January 2017, where she set out her main objectives for the Brexit negotiations, it is clearer than ever that the achievement of these strategic goals is simply incompatible with the Treasury’s current stance of maintaining one of the highest global taxes for air travel in the world. If the Government is serious about achieving its vision for the UK as a standard-bearer of global free trade, in the post-Brexit environment, then removing APD must rise to the top of the government’s to-do list. Only aviation can connect the UK to the emerging markets that are seen as vital to our continued prosperity. The UK levies a huge tariff in the form of APD on any foreign business person or tourist who might want to visit and an unfair burden in holidaymakers working towards a hard-earned break abroad.

It is increasingly untenable – at a time when the UK is looking to strike deals and open ourselves up to new markets and opportunities around the world – to continue to levy such excessively high levels of taxation on air travel.

While it is good news that the Government has given the green light to the construction of a new runway at Heathrow, the fact is that there will be little point in expanding Heathrow if we don’t have a competitive tax regime that will enable us to take advantage of the extra capacity. Giving Heathrow the green light while refusing to act on APD would send the kind of mixed signals which would be the very opposite of a coherent strategy for a truly global Britain.

The combination of devolution to Scotland and the post-Brexit vote environment presents a perfect opportunity to set a new course on APD. Abolishing APD during this Parliament would make any concerns about market distortions and unfairness for passengers flying from different parts of the UK redundant and even more importantly, would deliver significant economic benefits to the country.

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6 A report by the KiM Netherlands Institute for Transport Policy Analysis found that: “A conservative estimate of the air passenger tax’s effects during that period is that the tax accounted for nearly two million fewer passengers from Amsterdam Airport Schiphol.” It estimates that of these potential air passengers: 50% did not fly (either did not travel or used an alternative mode) and 50% used foreign airports – mostly Dusseldorf, Germany; Brussels, Belgium and Weeze, Germany (Source: KiM Netherlands Institute for Transport Policy Analysis report, p.9)

7 https://www.gov.uk/government/speeches/the-governments-negotiating-objectives-for-exiting-the-eu-pm-speech
APD – Key Points

Air Passenger Duty (APD) was introduced in the November 1993 by the then Chancellor, Rt Hon Ken Clarke MP.

APD is a tax which is levied on the carriage, from a UK airport, of chargeable passengers on chargeable aircraft. It becomes due when a flight with chargeable passengers occurs and is payable by the operator of the aircraft. The amount due is dependent on the final destination and class of travel of the chargeable passenger.

APD took effect from 1 November 1994 and was split into two bands: the lower rate encompassed flights within the UK and to the EEA – charged at £5 per passenger and all other destinations fell into the higher rate, which attracted a charge of £10 per passenger.

There have been a number of changes to the design and structure of the tax over the years, but current rates (for travel from 1 April 2017) for passengers carried by Airlines UK members are:8

<table>
<thead>
<tr>
<th>Destination Band (and distance from London – in miles)</th>
<th>Reduced Rate (for travel in the lowest class of travel available on the aircraft)</th>
<th>Standard Rate (for travel in any other class of travel)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Band A (0-2,000 miles)</td>
<td>£13</td>
<td>£26</td>
</tr>
<tr>
<td>Band B (over 2,000 miles)</td>
<td>£75</td>
<td>£150</td>
</tr>
</tbody>
</table>

Since it was introduced, APD has raised over £34 billion (in nominal terms) for the UK Government.9

Since April 2012, increases in the rates of APD have been linked to the Retail Price Index (RPI), rounded to the nearest pound. The applicable rates have increased significantly since 1994. The rate for short haul-trips in the lowest class of travel has increased by 160% from £5 to £13. For longer-haul trips the lowest class of travel has increased by 650% from £10 to £75. The corresponding increases for travel in higher class have been 420% for short-haul trips (from £5 to £26) and 1,400% for longer-haul trips (from £10 to £150).

International Comparisons

The Netherlands and Ireland have both abolished their versions of APD in recent years, while the 2017 rate for passengers flying long haul from Germany is €41.99 for any class of travel.

In France, their APD tax is set at €12.51 or €53.07 for long haul flights, depending on class of travel (made up of a Civil Aviation Tax at €8 and a Solidarity Tax on Aircraft tickets at €4.51 for economy and €45.07 for other classes of travel).10

10 http://www.developpement-durable.gouv.fr/en/aeronautical-taxes#e4
“The group of European countries which have abolished their flight ticket tax is almost as large as the group of countries still having it.”

In Sweden (2006) and Belgium (2008) governments started initiatives to introduce air ticket taxes, but gave up their plans following fierce resistance by the airline and the tourism industry as well as other stakeholders, e.g. trade unions, all fearing loss of competitiveness and jobs.

In Iceland government plans announced in 2011 for a rather moderate tax on air passengers at differentiated rates depending on flight distance were rejected. In 2014, the Portuguese government unsuccessfully proposed a moderate air passenger tax of €3 per air ticket as one element of rather sizeable ‘green tax reforms’.”


Germany

Germany has the fourth highest air passenger tax in Europe for short-haul journeys and the second highest for haul journeys in economy – but it raises £2.23 billion less than APD.

<table>
<thead>
<tr>
<th>Tax Revenue Raised – 2016</th>
<th>£ bn</th>
<th>€ bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK – Air Passenger Duty 12</td>
<td>3.14</td>
<td>3.71</td>
</tr>
<tr>
<td>Germany – Aviation Tax13</td>
<td>0.905</td>
<td>1.07</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Geographical Band</th>
<th>UK Rates (from 1 April 2017)</th>
<th>German Rates (from 1 January 2017)14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within EU</td>
<td>£13</td>
<td>£6.32 (£7.47)</td>
</tr>
<tr>
<td>Medium-haul</td>
<td>£75</td>
<td>£19.73 (£23.32)</td>
</tr>
<tr>
<td>Long-haul</td>
<td>£75</td>
<td>£35.53 (£41.99)</td>
</tr>
</tbody>
</table>

Furthermore, the gap between UK APD and the German tax is forecast to increase over the next five years, partly because UK rates continue to increase by inflation each year, whereas German rates are not uprated each year (they were, in contrast, reduced in 2012 and most recently at the start of 2016 after first being introduced in 2011). Indeed the German tax rates have only been increased once – in 2017 – and are still less than they were when they were first introduced.15

<table>
<thead>
<tr>
<th>Tax Revenue Forecasts</th>
<th>£ bn</th>
<th>€ bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK – Air Passenger Duty – for 2021/22</td>
<td>4.0</td>
<td>4.728</td>
</tr>
<tr>
<td>Germany – Aviation Tax – for 2021</td>
<td>0.998</td>
<td>1.18</td>
</tr>
</tbody>
</table>

**Austria**

Austria is proposing to reduce its version of APD. On 30 January 2017, the Austrian coalition government published its updated work programme to see it through until the next election in 2018. The document states that the Austrian Air Transport Levy will be reduced by 50% from January 2018.18

The policy proposal will be put forward to the Austrian Ministerial Council in April 2017 and then has to be passed by Parliament. The tax was implemented in April 2011 with passengers charged €8 for short-haul flights, €20 for medium-haul flights and €35 for long-haul flights. After a review, two of the bands were adjusted from January 2013 to the current levels of €7 for short-haul and €15 for medium-haul – with the long-haul rate staying the same at €35.19

It has been calculated that eliminating the tax would lead to 1.1 million additional passengers flying to or from Austria, with the resulting effects more than compensating for the lost tax revenue.20

The 2017-18 Government work programme makes clear the tax reduction is being planned in order to create jobs, help consumers as well to make Austria more competitive and attractive – particularly securing and protecting the hub status and international connectivity of Vienna airport.21

**Ireland**

The Irish Air Travel Tax (ATT), introduced in 2009, was abolished with effect from 1 April 2014. The universal, flat rate in 2014 was €3 per passenger.22 The tax was announced on 14 October 2008 in the 2009 Irish Budget.23

ATT was payable on every departure of a passenger on an aircraft from an Irish airport on or after 30 March 2009 to 31 March 2014, irrespective of when a passenger booked or paid for the flight.

18 http://archiv.bundeskanzleramt.at/DocView.axd?CobId=65201
21 http://archiv.bundeskanzleramt.at/DocView.axd?CobId=65201
Up to 28 February 2011, a rate of €2 applied where the flight was to a destination located not more than 300 kilometres from Dublin Airport. This covered all flights within Ireland and flights to the following locations in the UK: Cardiff, Glasgow, Prestwick, Liverpool, Manchester, Blackpool and Isle of Man. A rate of €10 applied to flights to any other destination.24

As the differential rate was considered to breach EU law by charging passengers on flights to other Member States more than passengers on domestic flights, this was changed to a flat rate of €3 from 1 March 2011.25

### Flights and passengers using Irish airports 2006-201526

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Flights</th>
<th>Total Passengers</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>261,700</td>
<td>29,227,100</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>283,500</td>
<td>31,337,400</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>280,400</td>
<td>31,328,390</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>233,500</td>
<td>27,230,938</td>
<td>Tax introduced – from 30 March</td>
</tr>
<tr>
<td>2010</td>
<td>209,100</td>
<td>23,709,227</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>206,800</td>
<td>23,657,704</td>
<td>Flat rate tax of €3 applied from 1 March</td>
</tr>
<tr>
<td>2012</td>
<td>202,300</td>
<td>23,813,090</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>204,500</td>
<td>24,775,735</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>217,100</td>
<td>26,486,131</td>
<td>Tax abolished – from 1 April</td>
</tr>
<tr>
<td>2015</td>
<td>228,200</td>
<td>29,798,803</td>
<td></td>
</tr>
</tbody>
</table>

Increase of 12.5% in number of passengers handled by Irish airports in 2015

In 2015, almost 30 million passengers passed through Irish airports, an increase of 12.5% over the previous year. This is the highest number of passengers handled by Irish airports since 2008, when 31.3 million passengers travelled through Irish airports.

Passenger numbers increased in all but two airports, Cork and Knock. Dublin airport accounted for 83.8% of all air passengers.27

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Growth at Dublin Airport

Passenger numbers at Dublin Airport increased by 11.5% to a record 27.9 million last year, with short-haul traffic increasing by 11%, as almost 24.3 million passenger took short-haul flights to and from the airport, while long-haul passenger numbers increased by 12% to more than 3.6 million.

Nineteen new routes were introduced during 2016 and additional capacity was added on 31 existing services through extra flights or the use of larger aircraft. Three new airlines started operations at Dublin last year – Aegean Airlines, Cobalt, and Flyone – while KLM returned to Dublin after a hiatus of 50 years.28 Dublin is due to add three long-haul routes this year: Doha with Qatar Airlines; Boston with Delta Air Lines, and Miami with Aer Lingus.29

At the end of 2014 – the year the Air Travel Tax was finally abolished, Dublin airport reported that the outlook for 2015 was “very positive” with “14 new services....announced for next year to destinations such as Los Angeles, Addis Ababa, Gothenburg, Reykjavik, Washington DC and Paris Orly.” The airport also reported that 24 new services had been launched during the course of 2014 – the year the tax was finally abolished.30

Further Facts

In 2015, Dublin saw a record 1.2m journeys from Northern Ireland – a 37% increase in the volume of passengers from Northern Ireland. 31

Following the Irish Government’s decision to abolish its version of APD in 2014, there was an 14% increase in tourism in 2015.32

Passenger numbers at Dublin Airport increased by 11.5% in 2016, making Dublin the leading performer among the top tier of European airports. Dublin Airport grew faster during 2016 than all other European airports that have more than 25 million passengers per annum.

After Dublin in the major airport category came Barcelona’s El-Prat Airport (+11.2%), Amsterdam’s Schiphol Airport (+9.2%), Copenhagen Airport (+9.1%) and Madrid Barajas (+7.7%).33

In 2016, Dublin was ranked the fastest-growing airport with over 25m passenger per annum in Europe, with Amsterdam Schiphol taking the crown for the most growth in the group of the top 5

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29 https://www.dublinairport.com/latest-news/detail/dublin-airport-was-europe-s-fastest-growing-major-airport-in-2016
33 https://www.dublinairport.com/latest-news/detail/dublin-airport-was-europe-s-fastest-growing-major-airport-in-2016
busiest European hub airports. Dublin recorded almost 28 million passengers, 2.8 million up on 2015.\textsuperscript{34}

At Schiphol, the number of passengers travelling through increased by 9.2\% to almost 64m, beating Frankfurt and Istanbul and taking the third spot on the list of Europe's busiest airports. The top five airports in Europe are now listed as Heathrow (75.7m passengers, +1\%), Paris-Charles de Gaulle (65.9m passengers, +0.3\%), Schiphol (63.6m, +9.2\%), Frankfurt (60.7m, -0.4\%) and Ataturk (60m, -2.1\%).\textsuperscript{35}

\textbf{Netherlands}

From 1 July 2008 to 1 July 2009 an air passenger tax was in effect in the Netherlands for passengers departing from Dutch airports. The decision to abolish the tax was taken after less than 12 months of it being in operation.

The air passenger tax had two rates: for destinations in EU member countries and other destinations located a maximum of 2,500 flight kilometres from the Netherlands, the tax rate was €11.25; for all other destinations the tax rate was €45. The tax was expected to generate €350 million annually in tax revenues.

Immediately after the implementation of the air passenger tax in July 2008, the number of passengers departing from Schiphol decreased. A conservative estimate of the air passenger tax’s effects during that period is that the tax accounted for nearly two million fewer passengers from the Dutch hub airport.\textsuperscript{36}

\textbf{Increasing Connectivity - destinations served by airlines operating from Schiphol Airport}

In 2007 – before the Dutch aviation tax was introduced – Schiphol served 157 destinations within Europe and 110 intercontinental destinations (267 in total).\textsuperscript{37}

By 2010, the first full year after the tax was abolished, the network of connections was expanded and included 301 destinations (an increase of 17), of which 274 were regular passenger destinations. The number of intercontinental passenger destinations rose by 5 to a total of 116.\textsuperscript{38}

In 2016, Schiphol airport served 293 passenger destinations – with another 29 cargo only destinations making 322 routes operated from the airport.\textsuperscript{39}

\begin{itemize}
\item \textsuperscript{34}  https://www.btnews.co.uk/article/11410
\item \textsuperscript{35}  https://www.aci-europe.org/media-room/mediaroom.html
\item \textsuperscript{36}  https://english.kimnet.nl/publications/reports/2011/02/10/effects-of-the-air-passenger-tax-behavioral-responses-of-passengers-airlines-and-airports
\item \textsuperscript{37}  https://downloads.contentful.com/1msjktcn08sc/68qGYYoNs4oYOcUsmmGo6l/4abc8a2dee2558352edd99ca011f13d2/annual_report_en.pdf
\item \textsuperscript{38}  https://www.afm.nl/registers/fv_documents/6337.pdf
\item \textsuperscript{39}  http://news.schiphol.com/2016-traffic-and-transport-figures-for-schiphol-group/
\end{itemize}
Flights and passengers using Dutch airports 2006-2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Flights</th>
<th>Total Passengers</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>467,332</td>
<td>48,596,556</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>479,506</td>
<td>50,517,673</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>473,563</td>
<td>50,425,690</td>
<td>Tax introduced – from 1 July</td>
</tr>
<tr>
<td>2009</td>
<td>429,129</td>
<td>46,455,743</td>
<td>Tax set to zero – from 1 July</td>
</tr>
<tr>
<td>2010</td>
<td>427,392</td>
<td>48,591,528</td>
<td>Tax abolished – from 1 January</td>
</tr>
<tr>
<td>2011</td>
<td>462,330</td>
<td>53,868,142</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>468,581</td>
<td>55,653,320</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>476,792</td>
<td>58,047,513</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>491,204</td>
<td>60,932,617</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>504,967</td>
<td>64,634,615</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>535,242</td>
<td>70,279,566</td>
<td></td>
</tr>
</tbody>
</table>

*Dutch airports recover as departure tax is abolished; traffic up 4.7% in 2010; Eindhoven and Maastricht up over 20%* - Airline Network News and Analysis, March 2011

The Dutch government’s departure tax on air passengers operated from July 2008 to June 2009. Since then, air passenger numbers have recovered and in 2010, Amsterdam Schiphol airport reported traffic growth of 3.8%, while the regional airports at Eindhoven and Maastricht reported passenger number increases of 25.2% and 30.6% respectively.41

The case for abolition of UK APD

Abolishing APD would stimulate additional business travel that would lead to higher productivity, increased trade and greater investment. The UK would become 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.

PwC produced a report on the impact on the economy and Government tax revenues if APD were abolished in 2013.42 PwC’s robust and detailed economic assessment was underpinned by a Computable General Equilibrium model; similar to the one used by HM Treasury. The report found that abolition would boost GDP, leading to thousands of new jobs and higher tax receipts such that abolition would be self-funding.

In 2015, Airlines UK published a further study by PwC that updated their 2013 report, with new analysis taking into account APD policy changes since 2013 and recent economic studies by government and PwC’s own work for the Airports Commission.43 Their study for the Airports

41 http://www.anna.aero/2011/03/09/dutch-airports-recover-as-departure-tax-is-abolished/
Commission looked at the relationship between the aviation sector and GDP and found a stronger link than the evidence used in the 2013 APD study. This suggested that the benefits of abolition had been underestimated and are even greater than previously thought.

Their economic model was been updated to reflect this new evidence and produced a revised set of results suggesting that:

- APD abolition could boost UK GDP by 0.46% in the first year, with continuing positive benefits up to 2020;
- the economy could be 1.7% bigger by 2020 than would be the case if APD were to remain unchanged;
- the increased economic output associated with abolition could lead to the creation of 61,000 jobs by 2020 – 1,000 more than the 2013 report found despite recent policy changes; and
- more tax revenue would be raised from other taxes than is lost from abolition, with a net £570m in extra tax receipts in the first fiscal year, and positive benefits through to 2020 that could add up to as much as £2bn additional tax receipts in total compared with the status quo.

In short, the evidence suggests that abolition would boost growth, help to create jobs, and would more than pay for itself through increased revenue from other taxes. The modelling suggests that the boost to GDP from abolition would come from three main sources:

- airline investment to offer new routes and maximise existing capacity to meet an estimated 10% increase in the demand for flights;
- higher productivity, international trade and investment from increased business and leisure travel; and
- a 7% net increase in foreign inbound tourism passengers by 2020 – equating to approximately 200,000 extra inbound tourist arrivals in the UK.