

Media Briefing

November 2003

Air Passenger Duty: why it should go up

Recent newspaper stories have suggested that the Chancellor is considering putting up Air Passenger Duty (APD). This briefing gives a history of APD and explains why the Chancellor should send the right signal to the aviation industry about its operations and growth rates by raising the duty level.

History

APD was introduced by the Conservative government in November 1993 and introduced on 1st November 1994. According to the then Chancellor, Kenneth Clarke *"air travel is under-taxed compared to other sectors of the economy. It benefits not only from a zero rate of VAT; in addition, the fuel used in international air travel, and nearly all domestic flights, is entirely free of tax"* [1]. The rate was set at £5 for flights to most European countries [2] and £10 for other flights.

In his November 1996 Budget statement, Kenneth Clarke stated that *"air travel has also been undertaxed, because it has proved difficult--still proves difficult--to get international agreement to tax its fuel"* [3] and announced a doubling of APD to £10 for flights to most European countries and £20 for other flights from 1st November 1997.

Gordon Brown halved APD rates for economy class passengers flying to most European countries to £5 in his 2000 Budget, claiming that this would introduce *"a new, lower and fairer air passenger duty"* [4]. He also introduced a new higher rate for business and first class passengers. The current rates are:

	Economy / lowest class	Business / first class
Most European destinations	£5	£10
Other destinations	£20	£40

Air Passenger Duty currently raises £900 million annually.

The current context: the forthcoming Aviation White Paper

Next month the Government will publish a White Paper on aviation, the first for almost 20 years. This will set out Government policy until 2030, including identifying preferred sites for airport expansion. This expansion is deemed necessary to cope with the forecast near tripling of passenger numbers in this period. This expansion is fuelled by long-term reductions in air fares and the boom in low-cost flights which are possible because the airline industry receives an effective subsidy of £9.2 billion per year because it pays no tax on the fuel it uses and virtually no VAT and continues to benefit from duty free

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sales.

Growth on the scale forecast would have serious consequences. Meeting the forecast demand would require up to three new runways in the South East. Expansion would cause greater traffic, air pollution and development pressures across many regions, and noise problems for many areas of the country currently unaffected. Aviation is also one of the fastest growing sources worldwide of emissions of carbon dioxide, the main gas causing climate change. According to the House of Commons Environmental Audit committee *"the proposed growth in emissions into the atmosphere by the aviation industry [is] unsustainable and unacceptable. Were such growth to occur, it could totally destroy the Government's recent commitment to a 60% cut in carbon dioxide emissions by 2050"* [5].

Why APD should go up

Friends of the Earth believes that the Government must start to prevent and control the impacts of aviation expansion rather than simply mitigating them.

The £900 million currently raised annually by APD does not cover the costs imposed on society by the aviation industry, and it was not designed as a accurate measure of these serious and growing effects. Nor does it represent more than a fraction of the £9 billion effective subsidy received annually by the industry through tax-free fuel, duty free and VAT exemptions. Aviation should contribute its fair share of general taxation, but does not currently do so, and soaring demand must be managed.

APD is the only charge currently applied to aviation and although putting up APD is not the optimum solution, it is preferable to waiting for an EU emissions charge or an international tax on aviation fuel. Agreement on these could be delayed by international intransigence and industry lobbying.

Friends of the Earth's proposal

APD on flights to most European countries should be raised by £5 in the 2004 Budget as an initial step in removing the effective subsidies to the aviation industry which help create artificially low prices and an artificial demand to fly. Further increases should be considered each year until a properly-designed environmental charge is introduced, whether at the national, European or international level.

This increase would be targetted where it is most needed: on the low-cost airlines, where passenger numbers are currently growing by 7% annually. It would have less direct effect on business flights, as these would be better able to absorb the increase.

Revenue raised from increasing APD could be used to address shortfalls in investment on more sustainable forms of transport. One possible use of the revenue would be further investment in improving long-distance rail services, such as the East Coast and Great Western main lines and European rail links, to provide a better alternative to short-haul air travel.

Contrary to the views of the aviation industry, this would not 'price poor people off planes'. Government forecasts of passenger growth are derived from modelling which assumes that air fares fall by at least 1% a year in real terms between now and 2030. Fare rises arising from gradually introducing a fairer tax package to eliminate the effective subsidies currently enjoyed by the aviation industry would amount to virtually the same as the fall in fares assumed by the Government. Thus by 2030, even with a fair system of taxation, air fares would generally be no higher in real terms than they are now [6].

NOTES

[1] Hansard, 30th November 1993, column 934

[2] The lower APD level applies to countries within the European Economic Area (EU countries plus Iceland, Liechtenstein

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and Norway), EU applicant countries, dependent territories of EU member states, and Switzerland.

[3] Hansard, 26th November 1996, column 166

[4] Hansard, 21st March 2000, column 869

[5] House of Commons Environmental Audit Select Committee, 9th Report 2002-03, "Budget 2003 and Aviation" para 17

[6] Figures derived from Friends of the Earth's re-run of the Government's SPASM air travel forecasting model

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