

**April 08**



**Friends of  
the Earth**

# **Consultation Response**

## **HM Treasury Aviation Duty Consultation**

### **Friends of the Earth's Response**

We are pleased to respond to the HM Treasury Aviation Duty consultation. Friends of the Earth England, Wales and Northern Ireland is the UK's most effective environmental campaigning organisation with over 220 local groups. We are part of an international network in 70 countries representing more than 1 million people.

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**Friends of the Earth inspires solutions to environmental problems, which make life better for people.**

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# HM Treasury Aviation Duty Consultation Response

## Introduction

Friends of the Earth broadly welcomes the introduction of Aviation Duty in place of Air Passenger Duty. We have long called for reform of aviation taxation such that it better reflects the true environmental impacts of individual flights and therefore provides an incentive to reduce emissions. The introduction of Aviation Duty provides an opportunity to achieve this.

It is now generally accepted that man made Climate Change is happening and that it presents severe environmental, economic and social threats to our way of life and to that of future generations. Both the UK Government and the EU have adopted targets to significantly reduce emissions by 2050 as a result.

The rapid growth in UK aviation emissions (more than 100% since 1990) presents a serious challenge to effective action to tackle the UK's contribution to climate change.

Friends of the Earth welcomed the introduction of the Climate Change Bill to Parliament, however we believe the bill as it stands has a number of shortcomings that must be addressed in its passage through Parliament. In particular, it must:-

- Include the UK's share of emissions from international aviation and shipping, and
- Adopt budgets and targets compatible with the latest scientific knowledge about climate change, in particular a target of at least 80% cut in emissions by 2050 from 1990 levels.

We believe that Aviation Duty should provide the Government with an important tool to control Britain's share of aviation emissions in order that the challenging emissions cuts prescribed by the new law can be achieved.

## SUMMARY

Friends of the Earth welcomes the introduction of aviation duty as a potentially effective tool to control aviation's climate change impacts. We particularly welcome the intention to cover freight flights and transfer passengers for the first time. The tax is also better targeted at actual emissions than the existing APD.

In our view the main purpose of the aviation duty is to help ensure that aviation emissions are controlled in line with overall climate policy objectives. Its other main purpose is to ensure aviation makes a fair contribution to general taxation - in this respect aviation duty is particularly important given aviation's exemption from VAT and kerosene taxation.

Aviation duty can help reduce aviation's emissions in two ways - first, by creating an incentive for developing lighter, greener aircraft, and for higher loading, and second by helping ensure that the overall cost of flying does not fall - ie by affecting overall demand.

However it is important that the tax is set high enough and is subject to an annual escalator so that it controls aviation emissions and also in recognition of the large tax exemptions that the aviation industry benefits from. This is more important than covering notional 'environmental costs' which are inherently flawed because the estimates of the "social cost of carbon" (itself just one of aviation's environmental impacts) are wildly inaccurate, huge underestimates, and over-optimistically precise. Aviation duty should continue after aviation is incorporated into the EU Emissions Trading Scheme as a complementary measure.

We support the intention to use maximum take off weight as a proxy emissions factor but would argue that four distance bands should be used in order to address environmental impacts of ultra long haul.

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We believe exemptions from the Duty should be limited to emergency and humanitarian flights and support the intention to ease the administrative burden by charging fuel tax instead below a 5700kg weight threshold.

We believe there is a compelling environmental case for including freight services within the duty and that any resulting modal shift would have environmental benefits and economic benefits for UK producers.

We welcome the intention to include transfer passengers within the aviation duty regime. These passengers provide little economic benefit to the UK and any reduction through introduction of aviation duty is likely to ease airport congestion for negligible environmental or economic impacts.

### **RESPONSE TO CONSULTATION QUESTIONS**

#### **Q1-Q4 Use of MTOW as a proxy for an emissions factor**

Ideally we would like to see a charge that more accurately reflects actual emissions, however, we fully recognise the legal problems that an emissions charge may currently present and therefore support use of MTOW as the next best option. We note that MTOW presents a reasonable proxy of actual emissions and that more efficient new aircraft such as the Boeing 787 use light weight materials to reduce emissions. We believe that using MTOW would, in time, provide incentives for manufacturers to further reduce the weight and therefore emissions of new aircraft. Use of MTOW will rightly, in our view, provide an incentive for operators to increase load factors and minimise flying virtually empty planes on positioning or 'slot retention' flights.

We believe a banding system would be open to manipulation and so support the use of the manufacturers certified MTOW as the preferable option.

#### **Q5-Q8 Use of NOx Emissions from Landing and Take Off Cycle**

We believe that although NOx emissions represent a reasonable proxy for flight CO2 emissions we are concerned that comprehensive, accurate NOx data does not exist and that use of such a proxy would therefore be open to challenge.

#### **Q9-Q10 Use of CO2 Emissions from landing and take off cycle**

Again, we believe that insufficient data exists and furthermore use of CO2 proxy could be subject to legal challenge.

**Q11** Is there another aircraft measure that would be better for aviation duty than the three options described above?

Not that we know of.

#### **Q12 Use of Aviation Duty to cover other environmental costs**

We believe that it is critical that the rate of aviation duty is not aligned with any monetary value put on environmental external costs for two reasons.

1. The consultation document makes it clear that the purpose of Aviation Duty is partly to enable aviation to pay its way towards general taxation. It is widely recognised that aviation is under taxed and if VAT and fuel duty were applied on the same basis as motoring that over £9billion per annum would be raised. Aviation duty is likely to raise somewhere between £2bn and £3bn per annum.
2. It is a near impossible task to put a financial value on environmental and social impacts, particularly from climate change. The cost of carbon used by the Government for policy appraisal grossly underestimates the true value of the irreversible social and environmental impacts from climate change. The assumption that the world will take strong action on climate change means

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assuming a low cost of carbon. But using this low cost assumption in decision making prevents strong action occurring, an entirely circular situation. The figure used by Govt is at least a factor of 5 too low<sup>1</sup>.

We believe the important point here is that aviation duty is set at such a rate that it controls aviation emissions in line with overall climate policy objectives and that aviation makes a fair contribution to general taxation.

We believe that the introduction of Aviation duty should not result in the price of flying falling further. We welcome the commitment to a 10% increase in the duty in the second year of operation. We believe an annual escalator should be applied in order that the price of flying does not continue to fall. Such an escalator announced in the next pre budget statement would allow the aviation industry to plan ahead and could provide a strong incentive for modal shift and use of low carbon technologies such as video conferencing for business use.

Aviation is likely to be included in the EU Emissions Trading Scheme from 2011 or 2012, some parties may argue that aviation duty should be removed when this happens. In our view aviation duty should remain in place as a complementary measure for the following reasons:-

1. When international aviation emissions are included in the UK Climate Change law the UK will need its own mechanism for controlling the emissions it is responsible for
2. Other sectors already in the EU ETS also pay taxes such as fuel taxes and VAT which aviation has exemption from. In a fair, competitive carbon market, aviation should be subject to the same taxes, in their absence aviation duty presents an adequate substitute. The Government acknowledges that aviation's tax exemptions are an anomaly.

### **Q13-Q19** Use of distance banding factor

We support the use of a distance banding factor, with the following provisos

1. Four bands instead of three should be used so that the impacts of ultra long haul are reflected in the charging regime, as follows  
A (EEA), B (less than 2500 miles, non EEA) C (2500-5000miles), D (over 5000miles)
2. Band A should be set such that the duty raised will exceed the total raised per plane with 100% load factor and budget seating arrangements under the current APD system. This should reflect the greater relative emissions from landing and take off cycle on short haul flights and also that viable, low carbon, rail alternatives exist for many of these journeys.

We believe that the extra fuel required for and the inconvenience caused by intermediate stops make it unlikely that airlines flying long haul will introduce them to avoid the higher bands. However it is recommended that HM Treasury monitor this as the tax 'beds in'. Consideration to levying the duty on the final destination of the aircraft (ignoring intermediate refuelling stops) could be given if this proves to be a problem.

### **Q20-Q23** Use of de minimis weight threshold

We support the use of a 5700Kg threshold as proposed by the European Commission and the Council of Environment Ministers for the incorporation of aviation into the EU ETS.

### **Q24**

We agree that helicopters should be incorporated into the fuel duty regime rather than under aviation duty.

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### Q25-Q27 Exemptions

We support exemptions only for the following categories of flights:-

- Emergency Flights
- Public Services

Flights for positioning, training and maintenance purposes should in our view be subject to aviation duty as they are part and parcel of operating an aviation business. These flights are just as polluting as 'normal' flights.

### Q28-Q33 Freight

We strongly support the inclusion of both dedicated freight flights and belly hold freight within the aviation duty regime. Carrying goods by air is enormously more polluting than using other modes<sup>ii</sup> and in the vast majority of cases freight is not time critical<sup>iii</sup> and could go by other less carbon intensive modes. The intention of the Treasury to close this anomaly is most welcome, the fact that this most polluting form of freight transport currently contributes virtually nothing towards its environmental costs or general taxation is highly regrettable. Introduction of Aviation Duty will bring a strong incentive to choose cleaner modes in the majority of cases where they are able. Air freight should rightly become the preserve of urgent, critical goods such as medicines and emergency spare parts.

There is evidence that applying fair taxation to air freight would result in a shift to the use of far cleaner modes<sup>iv</sup>

Any argument that the air freight industry might make that business will shift to airports on the continent for transfer to road tends to further support our assertion that much of this business is non time critical. In any case a considerable proportion of goods arriving in the EU by air is already transported by road to the UK from hub airports on the continent. A shift to more goods being transported this way would result in reduced carbon emissions compared to flying (see mode comparisons above) and any resulting cut in jobs in the air freight industry is likely to be more than compensated for by increase in jobs in road haulage industry. We believe it is inevitable, that in a shift to a low carbon economy that some jobs will be replaced in 'dirtier' industries to be replaced by new ones in 'cleaner' industries.

Any increase in the price of imported goods as a result of pass through of aviation duty is likely to benefit UK producers, perhaps particularly in the horticultural industry. These producers currently face unfair competition from overseas producers who pay very little in the way of taxation on their transportation and fuel. In comparison, UK suppliers have to meet the full costs of surface transport including taxes within the UK.

### Q34-Q38 Transit / Transfer Passengers

A significant proportion of passengers using UK airports (particularly Heathrow) are transfer passengers. These passengers currently provide very little benefit to the UK economy, they are exempt from APD and aren't doing business in the UK other than making purchases in airport shops.

It will be up to airlines how and whether they pass on the cost of aviation duty to passengers, if introduction of the tax resulted in an increased fares for transfer passengers they may well shift to direct flights or domestic rail travel with attendant environmental benefits. Airlines may argue that many transfer passengers may shift from changing planes at Heathrow to continental hubs. If this were to be the case it would make negligible difference to the environmental impacts and the UK economy as explained above. In fact it would arguably ease congestion at Heathrow for

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passengers who are making direct flights and contributing more to the UK economy through tourism and doing business in the UK.

### Q39-Q49 Administration of Aviation Duty

We have no comments to make on the administration of aviation Duty

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<sup>i</sup> See pages 6-8 from Friends of the Earth evidence to Joint Parliamentary Committee on Climate Change' [http://www.foe.co.uk/resource/submissions/ccc\\_call\\_evidence.pdf](http://www.foe.co.uk/resource/submissions/ccc_call_evidence.pdf)

<sup>ii</sup> Aviation=540g/tonnekm, Road= 50g/tonnekm, Shipping=5g/tonnekm, see:-  
[http://www.british-shipping.org/News/hot\\_off\\_the\\_press/briefing\\_paper\\_for\\_environment\\_and\\_transport\\_correspondents/](http://www.british-shipping.org/News/hot_off_the_press/briefing_paper_for_environment_and_transport_correspondents/)

<sup>iii</sup> Less than 10% of express air freight is time critical. Survey by International Logistics Quality Institute as reported to International Air Cargo Association AGM, April 2004, see page 7 of Midlands Aviation Masterplan:-  
[http://www.foe.co.uk/resource/briefings/mids\\_masterplan\\_brief.pdf](http://www.foe.co.uk/resource/briefings/mids_masterplan_brief.pdf)

<sup>iv</sup> In 2004/5 some fresh produce traders switched from air freight to shipping due to higher air freight costs, see:- [http://www.freshplaza.com/2006/21apr/1\\_nl\\_marine.htm](http://www.freshplaza.com/2006/21apr/1_nl_marine.htm)