Richmond Heathrow Campaign

Dame Margaret Hillier DBE MP,
Chair of the Public Accounts Committee,
House of Commons,
Committee Office,
London SW1A 0AA

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Surrey,
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30 June 2021

Dear Dame Margaret Hillier,

I am writing as Chair of the Richmond Heathrow Campaign (RHC) to draw your attention to the RHC response to the recent HM Treasury consultation on Aviation Tax Reform. We understand that the HM Treasury will post online its assessment of the results of this consultation; you may nevertheless find it helpful to have some advance notice of the 26 page long RHC submission, which can be found at https://richmondheathrowcampaign.org/apd. Attached with this letter is the summary.

A key issue is the under-taxation of aviation by over £12bn. It is perverse for HM Treasury to be seeking a reduction in the Aviation Passenger Duty (APD), which in the last "normal" year, 2019/20, was £3.6bn, especially in the face of the UK’s leadership chairing COP26 this autumn.

RHC proposed to HM Treasury an increase to full and fair APD of around £16bn, equivalent to levels of fuel duty and VAT incurred by other sectors of the economy, raising average air fares from around £117 to £160. In view of Covid’s impact, we recommend the increase be introduced in steps between 2026 and 2030.

We would find it helpful if the Public Accounts Committee could investigate the rationale for APD and the basis on which in their consultation HM Treasury claims the Government’s aims are to ensure that the aviation sector makes a “fair” contribution to public finances.

Depending on price sensitivity, demand is likely to reduce with full and fair APD, potentially to the maximum allowed by the 6th Carbon Budget to meet net zero carbon by 2050. The rise in air fares may be no more than that resulting from the introduction of a carbon tax.

Even after full and fair APD, reliance on taxation is no guarantee that carbon reductions can be achieved. Other mechanisms must be developed and introduced soon, otherwise achieving net zero carbon is at great risk.

RHC proposes the introduction of an airport carbon quota system focused on Heathrow, Gatwick and Manchester, which would cover 80% of aviation carbon emissions.

Continued/

RHC's overwhelming conviction is that the Government should abandon any idea of reducing APD and instead should increase it to a full and fair share of UK taxes and introduce an airport carbon quota system.

I hope you find our response to HM Treasury a useful addition to the debate on aviation tax. We would be pleased to respond further to your committee on any of the matters we have raised.

Yours faithfully,

Peter J. Willan

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RHC represents three amenity groups in the London Borough of Richmond upon Thames: The Richmond Society, The Friends of Richmond Green, and the Kew Society, which together have over 2000 members.

Attachment: Aviation Tax Reform, Summary of Response from Richmond Heathrow Campaign to HM Treasury Consultation, Revised 30 June 2021

Aviation Tax Reform
Summary of Response from Richmond Heathrow Campaign to HM Treasury Consultation
Revised 30 June 2021

Richmond Heathrow Campaign (RHC) responded to HM Treasury in its recent consultation on reducing Aviation Passenger Duty (APD) on domestic flights and devolving decisions to the nations of the Union.

RHC's overwhelming conviction is that the Government should abandon any idea of reducing APD and instead should increase it to a full and fair share of UK taxes equivalent to levels of fuel duty and VAT incurred by other sectors of the economy and introduce a carbon quota system at the small number of airports responsible for most of aviation's carbon emissions.

Aviation Passenger Duty (APD)

APD was established in 1994 as a surrogate for fuel duty and VAT on air fares. At no time in history has it been an environment tax. APD is levied on airlines at an average rate per passenger of around £11. It is levied either at a standard rate or reduced rate and applied in two distance bands - short and long haul. International journeys are charged on departures only and international-to-international (I-I) transfer passengers are exempt. APD raised £3.6bn in 2019/20.

RHC estimates full and fair tax on aviation, based on the exemption from fuel duty and VAT, would have been around £15.8bn in 2019 instead of actual £3.6bn. The shortfall, net of actual APD, was a substantial £12.2bn (£9.4bn from terminating passengers and £2.8bn from the I-I transfers exemption).

HM Treasury Proposal to reduce APD

There are compelling reasons why a reduction in UK aviation tax would be perverse. At the recent G7 meeting the UK, as chair, sought to reverse the race to the bottom on corporate taxes. Furthermore, the UK chairs the critical COP 26 meeting on climate change in Glasgow this year with an overwhelming case for the UK and other nations to internalise the wholly unsustainable carbon cost of flying. It therefore beggars belief to discover that the consultation is about doing exactly the opposite by reducing the already undertaxed cost of flying for business and pleasure.

RHC Proposal to Establish a Full and Fair Level of APD

Aviation is significantly undertaxed. It ranks low compared to other sectors of the economy in terms of contribution to the UK's general taxes needed for Government expenditure and servicing of national debt, meaning other taxes are higher than they need be.

RHC proposed to the HM Treasury that full and fair APD should be introduced to equivalent levels of fuel duty and VAT incurred by other sectors of the economy starting in 2026 (allowing the industry time to recover from Covid) and rising in steps from a current 11% of pre-tax air fares to 50% by 2030. RHC estimates average air fares would rise from around £117 to £160. APD rates could be adjusted if it were thought the full and fair APD disadvantaged the less well-off and/or the additional fiscal revenue could be used to benefit the less well-off, for example, by raising the personal tax allowance.

Impact of Full and Fair APD on Demand

Full and fair tax of around £16bn is likely to reduce subsequent demand growth and in turn APD growth, depending on passengers' sensitivity to ticket prices. Business travel (15% of UK terminating passengers) is unlikely to be significantly affected but more so leisure UK residents (50%), leisure foreign residents (25%), and domestic (10%). Assessment of passenger demand price sensitivity is lacking and is essential.

Depending on passenger price sensitivity, full and fair APD potentially could reduce demand growth to the maximum allowed by the Climate Change Committee's Carbon Budgets and air fares might not rise any more than were demand managed by a carbon tax or by the UK carbon trading or international CORSIA schemes.

Demand Management and Carbon Commitments

The 6th Carbon Budget, December 2020, says aviation's unconstrained demand growth of 64% (2018 to 2050) should be no more than 25% for aviation to achieve net zero carbon. The 292 million passengers in 2018 should grow to no more than 365 million by 2050, instead of an unconstrained 478 million passengers.

RHC recommends demand should not be managed by a carbon tax and APD treated as such for several reasons. The APD proceeds are best used for Government expenditure and therefore are not available as required by 'the polluter should pay principle' for the polluter to invest in remedial action; the airlines seemingly prefer carbon trading to a tax and therefore lack support for a meaningful carbon tax; reliance on taxation is no guarantee that carbon reductions can be achieved. The net result is that a carbon tax may not provide a full and fair share of UK tax, not mitigate carbon emissions, and not adequately manage demand growth. RHC recommends APD should be based on passenger usage so as to contribute a full and fair share of UK taxes and not be used as an environment tax to control carbon.

RHC Proposal to Establish a Quota System to Achieve Net Zero Carbon
Even after full and fair APD, there may be demand, efficiency and fuel replacement gaps in achieving net zero carbon. Other mechanisms must be developed and introduced soon, otherwise achieving net zero carbon is at great risk. RHC proposes that instead of a carbon tax or a frequent flyer levy (rejected by the HM Treasury), there be introduced an airport carbon (or greenhouse gas) quota system over five year cycles, which is driven by UK Carbon Budgets and airport Action Plans. Airports are best placed, as with the night noise quota system, to work with airlines on aircraft fleets, routes and operations to meet noise and carbon targets. A quota system focussed on three airports would cover 80% of aviation carbon emissions - Heathrow 55%, Gatwick 15%, and Manchester 10%.

RHC's Full Response
RHC in responding to the HM Treasury consultation on aviation tax made further recommendations:
1. Price sensitivity of passenger demand be assessed in order to plan an increase in APD and introduce a quota system for managing aviation carbon emissions.
2. Repeal the APD exemption for international-to-international transfer passengers, which add little or no value to the UK economy and would be better replaced by UK terminating passengers.
3. Introduce an APD supplement on flights from the southeast with a commensurate reduction elsewhere in the UK so as to assist with the Government's plans for levelling up.
4. Include consideration of emerging propulsion systems and their impact on aviation.
5. Include consideration of freight.

RHC supports the HM Treasury:
1. Retaining APD on both departure and arrival legs of domestic flights.
2. Rejecting a frequent flyer levy to reduce carbon emissions, adding that it would be unnecessary with full and fair APD and a quota system for managing carbon emissions.
3. Increasing the APD international distance bands from two to three, adding consideration be given to a fourth band between 2,000 and 5,500 miles.

RHC does not support HM Treasury:
1. Reducing APD on domestic flights,
2. Devolving APD to the Union nations or using APD to micro manage the economics of domestic routes, adding that APD should be a general tax with the proceeds shared with the nations and that there are other tools available to support viability and connectivity of domestic routes where appropriate.

RHC's full response to the consultation is 26 pages long in answering the specific questions and examining the issues in detail using DfT data and the 6th Carbon Budget and as a check - the Delft Report, 2013: 'Estimated revenues of VAT and fuel tax on aviation'. See www.richmondheathrowcampaign.org

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