

## Written evidence submitted by Airlines UK

### Introduction and Summary

This following is a submission by Airlines UK to the Treasury Select Committee's inquiry "*Tax after Coronavirus*". It makes the case for a temporary 12-month suspension of Air Passenger Duty (APD) as a way of rebuilding the economy and protecting economic growth.

This evidence will address the seventh question on the call for evidence: "*What is the role of tax reliefs in rebuilding the economy and promoting economic growth and efficiency? Does the current regime of tax reliefs perform this role well?*"

The key points of our submission are:

1. Airlines are facing an existential crisis due to the COVID pandemic, but so far have received no tailored support in the same way that the hospitality and arts sectors have done.
2. Government should take action to protect this vital industry, by implementing a 12-month suspension of Air Passenger Duty.
3. This temporary tax suspension would save 8,000 jobs, protect 45% of regional routes otherwise that would otherwise be lost, and generate £7 billion in GVA – more than three times the cost of the tax waiver.

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### About Airlines UK

Airlines UK (AUK) is the trade body for UK registered airlines, with members representing all sectors of the industry. We work with governments, regulators and legislators to promote the interests of UK airlines, and with organisations across the sector to encourage long-term and sustainable growth in aviation.

For further information on AUK, see our website [here](#).

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### Context

Since the COVID-19 pandemic hit earlier this year, few industries have experienced as much disruption as the UK's world-class aviation network – the third largest in the world, pre-crisis. Passenger demand was down by 70% in August 2020 compared to August 2019 and remains well below normal, and over 30,000 jobs have been either lost or are at risk amongst UK airlines alone. It is the worst crisis the industry has ever faced, and even should 2021 be a year of recovery, it is still expected to be the second worst on record for our sector.

Although other industries are also facing significant difficulties, including the hospitality sector, have received tailored Government support, aviation has so far only been able to draw on the measures available to all businesses, despite being one of the worst and earliest hit sectors in the country. During the most recent lockdown restrictions for England, aviation was effectively a closed business-sector due to the travel ban.

Without additional support, the New Economic Foundation [predicts](#) up to 124,000 jobs will be lost in the aviation industry and its supply chains before the crisis is over. This prediction, was

however, made before the latest lockdown restrictions came in and may not reflect the latest circumstances.

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## Evidence

Of the questions in the Committee's call for evidence, Airlines UK will seek to address the following:

### **What is the role of tax reliefs in rebuilding the economy and promoting economic growth and efficiency? Does the current regime of tax reliefs perform this role well?**

UK airlines make an overall contribution of £10.9 billion to national GDP, as well as facilitate the 35% of UK trade outside of the EU that is flown, mostly in the bellyhold of passenger aircraft. However, this strength is now a weakness, with the loss of air connectivity resulting in a bigger economic hit to the UK than experienced by other countries. Statistics from IATA<sup>1</sup> suggest that the UK will see a \$59.3bn impact to GDP due to the hit to its aviation sector in 2020, almost double that of Germany's expected loss of \$38.8bn.

In order to provide essential support for the industry in its recovery, and to protect regional connectivity, the Government should suspend Air Passenger Duty (APD) for 12-months. APD in the UK is one of the highest, if not the highest, tax of its type in the world and double that of Germany. It adds a significant amount to the price of tickets, making it harder for airlines to maintain and grow routes – even in normal times. It particularly impacts regional connectivity being levied twice on domestic flights.

A recent [study](#) by York Aviation commissioned by Airlines UK shows that the implementation of a 12-month suspension for APD could save 45% of UK air routes that would otherwise be lost due to COVID-19, save 8,000 jobs, and contribute £7 billion in GVA – *more than three times the revenue that would be generated by keeping the tax.*

A strong UK aviation sector is at the heart of a strong UK economy, and so will form a cornerstone of Britain's post COVID-19 recovery as well as our post-Brexit future as a global and connected nation. However, airlines cannot survive without passengers, so implementing this policy would help get planes back in the air once travel restrictions are lifted.

#### *Protect Regional Connectivity*

The collapse of the aviation sector will massively curtail regional connectivity, with 130 routes lost by July 2021 with 80% of these lost routes in the UK regions.

With so many areas underserved by other transport links, a loss of connectivity would be devastating to these areas that need to remain open for business if the Government is to deliver on its commitment to "level up" the country.

Suspending APD will ensure a large proportion of these routes are not lost, by immediately returning around 35 of them, rising to 56 by July 2021 in time for the Summer Holidays. In other words, by next summer a waiver would save 45% of these otherwise-lost routes. Indeed, these figures may even underestimate the effects, having been compiled before the latest lockdown restrictions were implemented in November.

#### *Get Britons Travelling Again*

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<sup>1</sup> <https://www.iata.org/en/pressroom/pr/2020-08-13-01/>

Suspending APD would also give travellers an incentive to take otherwise-postponed holidays in 2021 – an airline equivalent of the hospitality sector’s Eat Out to Help Out scheme, and help make key routes viable to operate again.

Hardworking families, unable to travel abroad due to the pandemic, will be helped to take a break whilst supporting UK jobs and businesses that depend on airlines routes operating. As many as 8,000 jobs could be saved over the next 12 months, meaning the sector can support an additional £7 billion in GVA – 3.3 *times* greater than the expected revenue from APD in the same time period.

*Get Britain Trading Again*

With over 60% of UK air freight transported in the bellyhold of passenger aircraft, a drive to get passenger flights operating will pay huge dividends for British trade. Every passenger flight from a UK airport is a potential freight flight for UK businesses, and getting these planes back in the air is an essential first step in protecting many of these local businesses and economies that rely on airlines to do business.

A “Global Britain” seeking to quickly bounce back from COVID-19 and trade as an independent country post-Brexit, cannot afford to have its airline industry and air connectivity stripped back.

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## Q&A

### **1. What is APD?**

APD is a tax charged on all passenger flights from UK airports. The rate of duty varies according to the destination of the passenger and the class they fly in. Rates start at £13 per short haul passenger flying on a reduced rate (and £80 for long haul), to as high as £528 for higher rate passengers flying longer distance.

For domestic flights starting and ending at a UK airport, this tax is charged twice, meaning £26 of a domestic return flight represents APD tax alone.

### **2. How much would a 12 month APD suspension cost?**

In normal times Government revenue from ADP is around £3.7 billion per year, but based on current estimates of passenger demand over the next 12 months this will likely fall significantly to £2.1 billion, which would by extension be the cost to the Government of a 12 month APD suspension.

However, suspending APD would actually raise more than three times the lost revenue, by mitigating the economic damage to the UK economy. It could save 8,000 jobs over the next 12 months, enable the sector to support an additional £7 billion in GVA, in effect 3.3. times the expected revenue for APD in the same period.

### **3. The aviation industry has had the same amount of Government support as other businesses, why does it need this as well?**

The aviation industry has made use of Government programmes like the furlough scheme, without which there would have been unprecedented job losses. However, many sectors – such as hospitality – have received tailored packages of support above and beyond what has been offered elsewhere. For such a strategically important sector - aviation has so far not received any such level of support, and with passenger demand at historic lows and tens of thousands of jobs under threat, emergency measures like an APD suspension will provide a much needed boost for the sector over the next 12 months during what will hopefully be a critical recovery period in 2021.

### **4. How does cutting taxes on flying protect regional links in my area?**

Without sufficient Government support, the commercial viability of routes will decrease. Whilst larger London airports may be able to absorb some of this impact in the immediate term, the biggest impact will be in the regions which are expected to represent at least 80% of lost routes. As the collapse of regional airlines like Flybe has shown, many of these lifeline routes work on slim margins and without support are at risk of being some of the first to go.

However, by temporarily suspending APD, many regional routes will immediately become more profitable and will be retained. In this case, by July 2021, 45% of otherwise lost routes could be kept. The suspension would have a particularly strong connectivity effect at regional airports, reflecting the severe effect of the pandemic on regional airport connectivity.

### **5. Isn't increasing demand environmentally irresponsible?**

Before the pandemic the UK aviation sector voluntarily committed to achieving net zero emissions by 2050, in a move supported by Airlines UK and our members. This was the first ever national commitment of its kind in the world.

This is achievable but ambitious, and the industry is prepared to go the extra mile to meet this goal, working with government on technologies like sustainable aviation fuels, electric aircraft, and airspace modernisation. But in order to be able to achieve this, the industry needs to be thriving.

**6. *If APD is a tax on passengers, how does that help increase trade?***

Passenger flights operate with freight in the bellyhold, and in fact account for over 60% of total UK air freight volume. Boosting passenger numbers would be a shot in the arm for UK trade, as so much trade is done on these passenger routes.

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*December 2020*