

Aviation Duty Consultation
Environment and Transport Taxes
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RESPONSE TO UK TREASURY CONSULTATION ON AVIATION DUTY

ERA (the European Regions Airlines Association) thanks HM Treasury for the opportunity to submit a response to the consultation on Aviation Duty published in January 2008.

ERA represents more than 60 European airlines. These airlines carry more than 70 million passengers per annum to and from Europe's regions, and operate almost 2 million intra-European flights per year. Approximately one third of ERA member airlines serve UK airports.

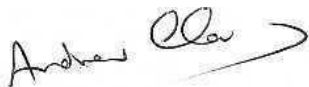
ERA does not support the replacement of UK Air Passenger Duty by an aircraft departure tax. ERA does not believe that the objectives stated in the UK Treasury consultation paper will be achieved.

While ERA is opposed to a change to a tax based on aircraft departures, ERA recognises that the Treasury may persist with this approach. If it does so, it is essential that the tax is levied on a basis that is more fair than MTOW multiplied by a factor based on three broad distance bands.

ERA's recommended factors would be fuel consumption per kilometre for each aircraft type, based on average loads and average sector distances, and the great circle distance to the first destination for each flight.

The attached paper provides a detailed response to the consultation.

Best regards



Andrew Clarke
Director Air Transport Policy

RESPONSE TO UK TREASURY CONSULTATION ON AVIATION DUTY

BY ERA (EUROPEAN REGIONS AIRLINE ASSOCIATION)

ERA does not support the replacement of UK Air Passenger Duty by an aircraft departure tax. ERA does not believe that the objectives stated in the UK Treasury consultation paper will be achieved.

1. Taxation of airlines does not create environmental gains except by pricing individuals out of the market

The current level of taxation, where passed on to passengers, will have already led to reduced demand, as demand for air travel, particularly for leisure travel, is proven to be elastic. A further increase in taxation, if passed on to consumers, will further drive down demand.

However, where taxation is absorbed in whole or in part by the airline, that airline's ability to finance more modern equipment (and potentially improve its environmental performance) is reduced.

Environmental performance of aviation can be improved through:

- Operational improvements (such as continuous descent approaches)
- Infrastructure improvements (such as the improvements from the Single European Sky)
- Improvements in available technology (for example from the EU Clean Skies project)
- Appropriate fiscal measures (such as emissions trading)

The fiscal measure agreed to be appropriate by the member states of the European Union is emissions trading rather than taxation. Airline associations including ERA are contributing to discussions at EU level to determine the details of an effective emissions trading scheme for air transport.

The European Commission has recently stated that national environmental taxation on air transport should cease when emissions trading is introduced.

2. Taxation of aircraft departures instead of passengers introduces major complexities for no environmental gain

Merits of the existing system of Air Passenger Duty are that

- airlines operating from UK airports have systems in place to enable them to report and account for sums due, and
- the amount of tax payable per passenger is totally transparent.

Any taxation change which requires additional factors to be taken into account will reduce transparency to the passenger, and will impose administrative costs which will be required to be assessed in the Regulatory Impact Assessment.

It is therefore incorrect to assume in the Regulatory Impact Assessment under Key Assumptions / Sensitivities / Risks that the "administration burden of new aviation duty is the same per business as air passenger duty." While this may become true when the system is "up and running", there will be significant costs involved in creating new reporting systems.

This new administrative burden will be significantly greater per passenger for those airlines that are small and medium sized enterprises.

Furthermore, if the UK accepts that emissions trading will supersede the need for other environmental taxation, then the revised tax will have a life span of 2-4 years over which all implementation costs, including government costs, must be written off.

3. Taxation based on the preferred measures of a) MTOW and b) distances in three bands will create major distortions, and fundamental disadvantages for the UK's regions

While ERA is opposed to a change to a tax based on aircraft departures, ERA recognises that the Treasury may persist with this approach. If it does so, it is essential that the tax is levied on a basis that is more fair than MTOW multiplied by a factor based on three broad distance bands.

While the most fair system would be to take account of actual emissions per flight, the administrative systems required would be very costly and almost impossible to put in place by November 2009. ERA therefore does not recommend that approach. However, other adjustments to the "preferred measures" would be essential.

a) MTOW

Many of Europe's smaller airlines operating to Europe's regions, including UK regions, use small aircraft in order to match market demand. Use of larger aircraft would be both costly and environmentally wasteful. However, these small aircraft are heavier per seat than larger aircraft. Many have relatively good environmental performance, particularly when powered by turboprop engines.

To achieve fair taxation, it would be essential to use a factor which recognises this environmental performance.

ERA's recommended factor would be fuel consumption per kilometre for each aircraft type, based on average loads and average sector distances. This data is readily available from aircraft manufacturers.

A further advantage of this method would be to reduce taxation on more fuel efficient aircraft of identical weight, providing a benefit to airlines that introduce aircraft with identical weights but with better environmental performance.

b) Distance factor

The preferred option of using a factor based on three distance bands produces very inequitable results. This is particularly true for flights between regions within the UK, where currently an airline pays a single tax for each one-way passenger journey (with an exemption for passengers departing from the Highlands and Islands).

ERA draws attention to two operations by its UK based members, and offers a comparison to an equivalent flight from London to Cyprus.

An ERA member operates London Gatwick – Plymouth – Newquay – London Gatwick. On a single flight, passengers can fly between London and both Plymouth and Newquay, and between South Devon and North West Cornwall. This aircraft operation is the most efficient to serve these markets. This operation will attract three departure taxes (London, Plymouth, Newquay).

A roundtrip by a similar aircraft London – Cyprus – London would attract a single departure tax of the same amount.



Airlines serving such routes within the UK would therefore attract substantially higher taxes for their UK domestic travellers, who are travelling substantially shorter distances than those journeying as far as Cyprus.

An ERA member operates Southampton – Newcastle – Aberdeen with a connecting service to Wick. The entire Southampton – Wick journey takes less than 5 hours, whereas the same journey by any other transport mode would take well in excess of a working day.

An airline carrying a passenger from Southampton to Wick and back will have 6 taxed departures (Southampton, Newcastle, Aberdeen, Wick, Aberdeen, Newcastle), or 5 taxed departures if departures from the Highlands and Islands are exempted.

Thus the UK domestic traveller attracts 6 times the tax of a London – Cyprus return traveller, despite travelling a substantially shorter distance.

ERA's recommended factor would be the great circle distance to the first destination for each flight.

ERA does not believe that this will lead to an increase in long-distance flights making technical stops in countries neighbouring the UK. The cost of landing, both in time-associated costs and in airport handling costs, would almost certainly significantly outweigh the tax saving. Such stops will, of course, continue to occur when they are made for reasons of market demand.

4. Airlines make a full contribution towards their infrastructure costs

Air transport, unlike other modes of public transport, already pays for its full infrastructure costs through airport charges and fees paid to air navigation service providers. There is therefore no requirement for taxation to cover these costs.

5. Appointing airports as tax collectors will add unnecessary costs and reduce airlines' cash flow

Fundamentally, airlines will need to account for the taxation of their flights. There is therefore little, if any, rationale for this burden to be shared with airports, as it is inevitable that this would increase the bureaucratic requirement.

Furthermore, ERA notes that one stated advantage for airports from taking on the role of tax collection is increased cash flow: "There would also be cash flow benefits to the airports in the form of interest earned over the period they hold the revenue for HMRC - this is likely to offset the increased administrative burden" (Section 6.7 of the consultation document). ERA notes that much of this cash flow would come at the expense of airlines, thus reducing cash flow for what is arguably the most cash-poor sector of the air transport chain. The consequential costs must be included in the Regulatory Impact Assessment.

European Regions Airline Association
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