



House of Commons

All Party Parliamentary Group for Aviation

Inquiry into Aviation Policy and Air Passenger Duty

August 2012

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FOREWORD

“Aviation makes a sizeable economic contribution on its own. It supports 921,000 jobs across the country and represents the very best of cutting-edge design and UK innovation. Aviation is, though, much more than just one sector. It is an economic catalyst that underpins the whole of the UK economy, representing 3.6% of UK GDP, or a contribution of £49.6 billion”¹.

The evidence taken by our Inquiry confirms that the industry can deliver more for UK plc both in terms of jobs and taxation revenue. However, in order to generate even greater value from this sector, we need to see a new approach towards aviation from the current Coalition Government, and a new approach to Government from the industry.

In short, the findings of our report advocate a new direction for UK aviation and call upon all those groups, organisations, companies and Government departments with an involvement in the sector to look again at how aviation can be part of the solution to the UK’s economic problems in a sustainable way.

In order to achieve the greatest possible economic and social contribution from aviation, we need two things from Government: a forward looking aviation policy that allows for aviation growth; and a new approach to the taxation of aviation. Combined, a new approach could not only energise the sector but also provide a firm foundation for the UK’s economic recovery. Few industries can deliver to the whole of UK plc and assist the Government in achieving its economic and social objectives.

In common with all other sectors, aviation must continue to address its carbon emissions and environmental impacts; it has already achieved significant improvements but can and must do more. The EU Emissions Trading Scheme is supported by this Group and provides a good framework for aviation’s emissions to be reduced to the same levels achieved in 2005 by 2050. Though carbon is one of the most pressing environmental considerations for the industry and Government to address, more must also be done to address the issue of aircraft noise and its mitigation if aviation growth is to enjoy public support. We heard evidence that this process must involve both the industry and changes to the planning system.

This report was prepared with the co-operation and involvement of the industry. I and my fellow Group members are grateful for all those who submitted evidence and attended the oral evidence sessions. Our recommendations are not simply aimed at Government: we need to encourage a new approach towards aviation from industry as well as our political leaders. We hope that this report will facilitate a debate about the vital contribution aviation makes to the UK economy and how it can help the economy across the spectrum.”

Brian Donohoe MP

Chair, All-Party Parliamentary Group for Aviation

¹ Oxford Economics 2011, ‘Economic Benefits from Air Transport in the UK’

TERMS OF REFERENCE

The All Party Parliamentary Group (APPG) on Aviation is a cross-party group of MPs and peers with an interest in aviation. The Group, represented by Brian Donohoe MP (Lab), Mike Crockart MP (Lib), and Paul Maynard MP (Con), has held a short Inquiry into how Government policy can help to maintain and enhance the UK aviation industry's international competitiveness and its contribution to the economy.

Scope of the inquiry

The inquiry has looked at a number of issues that affect the UK aviation industry's ability to compete internationally, in terms of capacity, infrastructure and taxation. In particular, we considered the level of Air Passenger Duty (APD) collected by the Government and its impact on competitiveness.

We also examined the economic importance of the aviation sector to the overall UK economy, how to help reduce its peripherality, as well as the impact which it has on the environment and how growth can be sustainable.

This inquiry has covered England, Scotland, Wales and Northern Ireland.

The inquiry asked the following questions:

1. *Air Passenger Duty*
 - a. *Does the level at which APD is levied, place the UK at a competitive disadvantage?*
 - b. *Please quantify the benefits and/or advantages, as you see them, resulting from the APD that is levied on passengers departing UK airports.*
 - c. *Should the Treasury commission an independent analysis of the economic impacts of APD? If so, please provide more details about what you think such a piece of research should include/cover.*
2. *Economic impact of the aviation sector:*
 - a. *What are the constraints which inhibit the growth of the sector, and therefore its ability to grow the economy?*
 - b. *Should it be the role of Government to manage aviation demand?*
 - c. *Are there lessons to be learned from aviation policy in other EU countries?*
3. *Environmental Impact of the Aviation Sector:*
 - a. *What is the overall impact of aviation on the environment in terms of emissions?*
 - b. *What is the overall impact of aviation on the population in terms of noise pollution?*
 - c. *Is the aviation sector doing enough to address its impact on the environment? How can Government policy support further improvements?*
 - d. *In January 2012 Aviation entered the EU Emissions Trading Scheme (ETS). Should the Government reduce APD to offset the impact of the EU ETS?*

Secretariat support

The APPG is grateful to the group's secretariat, MHP Communications, 'A Fair Tax on Flying' campaign and Westminster Public Affairs for their assistance in this Inquiry. We are particularly grateful for their support in organising the two oral evidence sessions and assistance in drafting the report.

In accordance with the Rules on All Party Groups, we have disclosed this support in the appropriate registers.

We are also grateful for the 60 organisations and individuals who have submitted written evidence to the Inquiry and to those who gave oral evidence.

Full details of the All Party Group on Aviation's entry on the official Register of All Party Groups is available on the Parliamentary website: www.parliament.uk.

EXECUTIVE SUMMARY

Air Passenger Duty

- Evidence from experience in other European countries and indications of changing patterns of traffic, particularly from the UK regions, appears to confirm the adverse impacts of imposing Air Passenger Duty (APD), particularly at the high rates in the UK. The Government should initiate studies to quantify the full impact of APD on UK competitiveness and its taxation policy / receipts.
- It is unfortunate that there does not seem to have been any detailed economic analysis of the impact of APD on the UK economy, in terms of growth and employment.
- There are apparent inconsistencies between evidence presented to the Inquiry from the airlines and tourism industry which suggests that customers are highly price sensitive, so exhibit high fare price elasticities to and from the UK, with that from DfT evidence suggesting that air travel is not price sensitive. This issue is key to the debate on the fairness and impact of APD.
- APD is one of a range of issues (including airport capacity and UK policy on visa availability and fees) that present barriers to inward business and leisure travel to the UK and place the country at a competitive disadvantage to other European destinations. That the UK is not part of the Schengen agreement is also unhelpful in encouraging Tourism to the UK.

Economic impact of the aviation sector

- The aviation sector is of vital strategic importance for the future competitiveness, economic prosperity and social cohesion of the UK. A cross-party, long-term policy consensus is required, as recognised in many countries with whom the UK competes in the air transport sector. The UK must seek a stable framework for growth, benefitting not only the UK's aviation sector, but also providing certainty for investors, the UK industries reliant on first rate air connectivity, the millions of Britons reliant on air travel, the local communities impacted by the sector, and foreign investors.
- The economic importance of the aviation sector is heavily reliant on a Government-regulated planning framework, the protracted nature of which currently inhibits growth and development whilst denying certainty to the industry and those opposed to its development. The availability of a clear, unequivocal long term Government vision and policy for aviation is crucial. That needs to be coupled to further changes to the planning system beyond those of the National Planning Policy Framework.
- The UK's hub airport is of national strategic importance and should be supported by Government Policy. Changes in airport ownership and successive Government wrangling over policy priorities have been a distraction to ensuring that the UK retains and grows its hub

capacity and competitive capability in the air transport market. Immediate policy action is required to either develop further capacity at Heathrow, or the availability of a new purpose-built hub airport.

- We welcome the Government's recognition that a sustainable framework to guide the aviation industry in its planning and investment is required for the short, medium, and longer-term. However, an interim solution is required until a more comprehensive solution can be implemented. Options that should be considered are the progressive use of mixed mode use of Heathrow's runways, and the use of the existing runway at Northolt for UK regional air service access. This would help to mitigate the capacity constraints currently being experienced at the UK hub, and allow the UK to maintain its global leadership in aviation until a long-term agreed policy solution is reached.
- The decision of commercial airlines to develop their services and networks from specific airports is a matter for their commercial judgement and the market. Previous regulatory intervention by Government to influence the market has failed. This inquiry believes that the Government should ensure that the market for secondary trading for slots at congested airports operates properly, save for safeguards for vital UK regional connections and should not be allowed to interfere with the broader issues in an effort to find a solution to the fundamental problem facing the sector – capacity constraints at the UK's hub airport. We are also persuaded that the Government must protect vital regional access to the UK hub airport either through the use of PSO or designating that a percentage of any new slots at or adjacent to the hub be allocated to UK regional services. In addition, the Government should seek to change the current EC PSO designation of City to specific airport services.
- The Group is concerned that the UK is being left behind on airport capacity provision where demand is greatest. It has noted the significant investment that has been made at Europe's major hub airports outside of the UK (Frankfurt, Amsterdam Schiphol, and Paris Charles de Gaulle) in recent years. The concern is that without adequate, timely runway capacity, UK imposition of high levels of APD on top of ETS will leave the UK industry and economy at an increasing competitive disadvantage.
- Air Passenger Duty and aviation policy are under the jurisdiction of different Ministers. This inevitably impairs the development of a cohesive policy for the sector.

Environmental Impact of the Aviation Sector

- Aviation accounts for some 2% of CO2 emissions. This is substantially less than most other forms of transport, including shipping, which is not subject to specific passenger related taxation or duties; some of which receive significant public subsidy.
- Real advances have been achieved in reducing the adverse environmental impact of aviation, particularly around airports, over the last 30 years. This has been made possible by the development of and investment in new aircraft and engine technology, resulting in quieter, more fuel efficient aircraft. Despite such development, local communities remain concerned

about the impact of aircraft noise particularly due to the frequency of over-flight rather than the individual level of noise experienced.

- The industry has made significant effort to adjust operational procedures and has achieved gains in noise reduction, and in the case of some airports, carbon neutrality. This achievement does not appear to have been recognised in reducing the level of environmental restriction and therefore the associated implication to achieving optimum and best use of existing scarce runway capacity.
- Government has to strike a balance between fostering economic development, jobs and international trade, and the impact that such commercial activity has on local communities. Much has been achieved, but more needs to be done to recognise legitimate concerns on both sides.
- Concerns were raised that some objections to airport operation and development came from those who had moved into an area knowing of the airports existence and impact. More needs to be done to recognise and act on legitimate environmental grievances. The Group believes that the planning system and potentially rules / policy relating to house sales and legal searches should reflect the duty of care that individuals have to recognise potential noise and disturbance from agreeing to live in a particular locality, next to established commercial or strategically vital operations such as airports.

A full summary of recommendations is given beginning on page 40.

PART I: THE ECONOMIC IMPACT OF AIR PASSENGER DUTY

Background

Air Passenger Duty is a passenger-based tax, which is charged to the aircraft operator based on the number of passengers, destination and class of travel. The duty was introduced in 1994 and, as illustrated in the table below, has been increased significantly over recent years to the stage that the UK levies the highest level of APD of any country in the world.

These above inflationary increases, combined with the introduction of a policy of continued inflationary increases and the inclusion of aviation in the European Emissions Trading Scheme, has led to concerns that the level of APD being applied to travellers has reached a level that it is detrimental to the UK economy and the Government's aims of providing growth and employment.

The rate of inflation over the same period has been just 17%.

Rise in APD since 2007

Economy	Example Destination	2007	2012	Increase
Band A	EU	£5	£13	160%
Band B	UAE/USA	£20	£65	225%
Band C	China/India	£20	£81	305%
Band D	Australia	£20	£92	360%
Non Economy	Example Destination	2007	2012	Increase
Band A	EU	£10	£26	160%
Band B	UAE/USA	£40	£130	225%
Band C	China/India	£40	£162	305%
Band D	Australia	£40	£184	360%

Source: International Air Transport Association

a. Does the level at which APD is levied place the UK at a competitive disadvantage?

The vast majority of the submissions received by the Inquiry considered that the UK was placed at a significant competitive disadvantage to other European and global destinations through the imposition of Air Passenger Duty (it was covered in 43 of the 51 submissions that answered question).

Specifically, it was noted that this competitive disadvantage is both between UK and overseas airports, in terms of attracting airlines that provide access to overseas markets for business and leisure travel, and between the UK and overseas countries in terms of attracting tourism and business investment. Most importantly, UK airlines are at a considerable disadvantage compared with overseas carriers due to being based in the UK and having APD being applied to most of their passengers while overseas airlines only pay APD on the much smaller proportion of their passengers

that emanate from the UK. As such, APD is a smaller percentage of the revenues of overseas airlines than of UK airline revenues.

At the moment, APD is applied by only six of the 27 EU Member States, placing the UK at a further competitive disadvantage to the 21 APD-free countries when it comes to attracting airlines and visitors. A number of respondents identified that this is in addition to the high level of Visa charges incurred by visitors to the UK as compared with the lower cost multiple entry Visa system available in the 26 EU countries that are members of Schengen². However, the table below demonstrates that even within the six APD-charging destinations, there is a significant discrepancy between the level of APD levied in the UK compared to other destinations. This discrepancy ranges from 2.8x the average for short-haul flights in economy class through to 8.5x the average for long-haul flights in premium economy and above.

Rates of UK aviation tax per person compared to other EU countries

Country	Short haul rate in economy (€)	Medium haul rate in economy (€)	Long haul rate in economy (€)	Max rate charged - any class (€)
Austria	€8.0	€20.0	€35.0	€35.0
France	€5.2	€5.2	€11.6	€47.6
Germany	€7.5	€23.4	€42.2	€42.2
Ireland	€3.0	€3.0	€3.0	€3.0
Italy	€4.5	€4.5	€4.5	€5.5
UK	€16.0	€89.9	€113.3	€226.6
Other EU average	€5.6	€11.2	€19.3	€26.7
All EU average	€7.4	€24.3	€34.9	€60.0
Ratio - UK: other EU	2.8	8.0	5.9	8.5
Ratio - UK: all EU	2.2	3.7	3.2	3.8

Source: Airport Operators Association (AOA)

There was strong agreement from most of those making submissions that the discrepancy in APD rates between the UK and other European countries is a source of competitive disadvantage. Others did however comment that the UK aviation industry does not pay VAT on tickets and that there is no duty on fuel; albeit that duty on fuel is not permissible due to international agreement under ICAO. As such, some argued that the aviation sector had a competitive advantage over other sectors of the UK economy.

However, we found this argument to be less convincing for two significant reasons. Firstly, the UK aviation sector is not in direct competition with most other sectors of the UK economy. For example, purchasing a flight to the USA is not a direct substitute for the purchase of a dining table or mountain bike (although it can be argued that there is a degree of competition between the leisure travel sector and other industries that target discretionary expenditure).

² Evidence of Unite paragraph 2.10

When considering taxation rates, it is important to compare industries within a specific sector where the different application of taxes can distort the market. In this case, the comparator should be other modes of public transport. Within the public transport sector, VAT is not charged on any fares regardless of the mode of transport. As such, the aviation industry has no competitive advantage over other means of public transport such as road or rail operators. (See above re the ICAO restrictions).

It should also be noted that, while a number of other European countries apply VAT to domestic airfares, the 1977 EU VAT Directive dictates that no European country applies VAT to international travel. Also, as a result of the Convention on International Civil Aviation signed in 1944, it was agreed that no country impose fuel duty on aviation. Therefore, the UK does not have a competitive advantage on these issues.

On the issue of fuel duty, it is agreed that the industry benefits from duty not being payable on aviation fuel. However, this benefit needs to be assessed alongside the benefits that other passenger transport sectors receive from the Government in order to provide an accurate assessment as to whether aviation has a competitive advantage over other modes of transport.

Like the aviation sector, the ferry industry does not pay duty on fuel and, until recently 80% of the fuel tax paid by bus operators was refunded through the Fuel Duty Rebate. There is also no shipping passenger duty payable by UK cruise passengers from UK ports, despite the fact that shipping generates more CO2 than aviation. While the Fuel Duty rebate has now been replaced by the Bus Service Operator Grant which lowers the rebate on Fuel Duty, bus operators also receive a range of other subsidies that reduce their operational costs. The 2012 House of Commons Standard Note, *Buses: grants and subsidies* (SN1522) calculates that subsidies account for over half of all bus operators' revenues.

It should also be borne in mind that other forms of mass public transport are subsidised by the taxpayer, when the aviation sector attracts no such subsidy (other than in specific isolated instances for services in the Highlands and Islands of Scotland). For example, in 2010/11, rail was subsidised by just under £4bn³ a year and bus and coach company subsidies in England amounted to £2.4bn⁴. In evidence received from the Airport Operators Association, we noted that airport infrastructure is paid for by the aviation sector, without receiving any subsidy.

As such, we do not believe that that the aviation sector has a competitive advantage over other forms of public transport. Indeed, through the imposition of APD, it could be argued that the aviation sector is at a considerable disadvantage to other modes of public transport which do not pay a departure tax on either domestic or international journeys. Our Inquiry has received evidence from a number of submissions of intercontinental passengers flying to and from Amsterdam and then using Stena Line ferries to Harwich to avoid APD⁵.

³ House of Commons Library Standard Note SN/SG/617 *Public spending and investment on the railways*

⁴ Department for Transport, Annual Bus Statistics 2010/11

⁵ Evidence from Unite, paragraph 3.15

In terms of the industry providing a contribution to the Exchequer, evidence was received from Oxera that indicates that the aviation sector faces a tax burden that is 22% higher as a share of Gross Value Added (GVA) compared to the average UK industry sector due to APD⁶.

Evidence of impact

While it is clear that there is a significant disparity between the rate of APD levied in the UK and that levied by other European countries, there needs to be evidence that this disparity is placing the UK at a competitive disadvantage in relation to these destinations for there to be any need to amend APD rates.

That said, it was noted that the aviation sector is extremely price competitive and price sensitive with many airlines operating on very low margins. The leisure and VFR sectors are highlighted in a number of submissions as particularly price elastic to changes in fares. This means that small changes in cost can have significant impacts on the viability of routes. In addition, aircraft, by their very nature, are very mobile assets and, as the airlines do not own the airports, there is very little incentive for airlines to maintain routes that are not profitable.

Manchester Airports Group (MAG), cited as just one example, the fact that Air Asia X blamed ever increasing levels of APD as the primary reason for abandoning its flights to UK destinations. It is a matter of public record that Continental Airlines (now part of United) would have abandoned flights from Belfast to the US if the level of APD were not reduced in October 2011 (the only decrease in APD granted by a UK Chancellor of the Exchequer this century). They have already withdrawn services from other UK regional airports.

The inquiry received considerable evidence, both in terms of overseas experience, econometric modelling and anecdotal reports to strongly suggest that Air Passenger Duty is indeed having an impact on the UK's competitiveness in the global and European aviation markets.

A number of organisations who submitted evidence also noted that there is not a single, robust piece of Government research that quantifies the overall impacts of APD. In particular, many have asserted that the Government gets diminishing returns as tax revenue receipts reduce as traffic declines in response to the increased levels of taxation.

Overseas experience

Evidence was provided showing that other European countries, including Belgium, Denmark, Ireland and the Netherlands had all introduced APD charges lower than those now being applied in the UK and subsequently reduced or abandoned them due to the adverse impact that they were having on their aviation sector and inbound tourism.

Particularly significant evidence comes from the Netherlands where the introduction of APD resulted in Dutch residents travelling to Germany to begin their international flights. Although the tax was

⁶ Oxera, 'What is the contribution of aviation to the UK economy?' (2009)

generating €300m for the Dutch Government, it was found to have caused a loss of €1.3bn to the broader Dutch economy through displacement. Sharing a land border with a lower tax regime clearly incentivises consumers to change behaviour to secure best value. This is a similar phenomenon as has been noted in the only part of the United Kingdom to share a land border with another state – Northern Ireland. ABTA estimates that nearly a million people depart Dublin Airport despite being resident in Northern Ireland. The considerable difference in aviation taxation was cited by ABTA as one of the reasons for this movement of traffic out of the UK.

Northern Ireland is the only part of the UK to share a land border. For passengers departing airports in Great Britain it is more difficult and expensive to travel to airports in other countries to avoid APD. However, evidence was presented to suggest that the practice of switching countries to avoid the payment of APD was now taking place.

Evidence (both written and verbal) from Manchester Airport Group (MAG) referred to passengers switching long-haul flights from the UK to now route via Amsterdam, using two separate tickets, to avoid UK long-haul APD. MAG further advised that the route from Manchester to Amsterdam is now Amsterdam Schiphol airport's sixth most important route.

Separate analysis carried out by our Adviser, of the OAG flight schedules between UK and the Netherlands has shown that in 2011, the annual seats offered by KLM and KLM City Hopper between the points it serves in the UK and Amsterdam were some 5.3 million. When analysed in association with information from the comprehensive CAA passenger survey, there were more than 2 million UK originating passengers that transferred in Amsterdam onto connecting flights; this was before the latest increase in APD had been implemented. The analysis also showed that KLM capacity on routes from the UK to Amsterdam has been increasing by over 3% per annum over the last 10 years (in spite of the capacity offered by Low Cost Carriers to Amsterdam and the worldwide recession). It should be recognised that only 6 UK regional airports now have service to Heathrow compared with twenty-two to Amsterdam, with KLM offering passengers full interline transfer capability; this is further contributing to the leakage of traffic to Amsterdam. Air France and Lufthansa have also been increasing their services to UK regional airports in an effort to encourage UK traffic to connect over their hubs in Frankfurt and Paris⁷.

Econometric modelling

The Inquiry received a number of econometric studies on the impact of APD including a report by Oxera commissioned by the AOA, an Oxford Economics report commissioned for IATA, a report from York Aviation for BAA Scotland and further York Aviation report for MAG. All reports indicated that, at its present level, APD is having a considerable negative impact on the aviation and tourism industry in the UK.

All reports also highlighted the damage that further increases in APD would cause to the UK economy. The AOA's Oxford Economic report found that if APD increased by 5% per annum, by 2030

⁷ Analysis of OAG Timetables

the GVA of the aviation sector could be reduced by £450m with wealth created in the wider economy reduced by anything from £500m to £8.3bn, depending on how its effects are estimated.

In terms of the impact in Scotland, the 2011 York Aviation report for BAA Scotland calculated that the recent increase could reduce passengers at Scottish Airports, threaten the viability of some routes and undermine the case for new routes.

“Over the next three years, we estimate that Scottish airports will lose around 1.2 million passengers or around 1.8% of total demand. The largest numeric losses will occur on Domestic services but it is the impact on longer haul services which is of perhaps greatest concern, where as much as 5% of demand may be lost. This has the potential to undermine the long term sustainability of these routes and reduce the ability of airlines to bring new destinations to the market. Any loss of connectivity will impact on Scotland’s competitiveness but long haul routes are of particular economic and strategic importance to the Scottish economy.”⁸

UK competitiveness

A range of other evidence on APD having an adverse impact on the competitiveness of the UK was received. This evidence was particularly strong from leisure travel, where travel to the UK can easily be substituted for another destination.

In tourism, the UK is one of the top global destinations, ranking 7th behind the USA, Spain, France, China, Italy and Germany. Receipts from inbound tourism alone provide £17.6bn for the UK economy while UK carriers earn a further £3bn per annum in sales to overseas nationals. Together, this expenditure brings in £20.6bn in overseas revenue, making tourism the UK’s six largest export earner and, accounting for 4.8% of the country’s total export receipts. The Group welcomes the Government’s stated objective in the Department for Culture, Media and Sport’s Tourism Policy to increase the number of inbound tourists. We note that the aviation taxation regime may hinder this noble and sound objective.

Work undertaken by the World Travel and Tourism Council suggests that removing APD would result in an increase to the UK economy of up to £4.2bn per annum in GDP and create 91,000 jobs⁹.

The World Economic Forum undertakes a regular review of the competitiveness of global tourism destinations. Their 2011 survey ranks the UK as being the sixth most competitive destination in the world for travel and tourism. However, when comparing various components of the UK’s offering, this survey places the UK in 134th position of the 138 countries in the survey in terms of “ticket taxes and airport charges”. The Group noted that this position sits uncomfortably against the Chancellor’s stated objective from Budget 2011 that the UK should have the “most competitive tax regime in the G20”.

⁸ York Aviation, The Impact of the 2010 APD Increases in Scotland, 2011

⁹ WTTC, Benchmarking Travel and Tourism in the UK, 2012

Other evidence presented on the impact that APD is having on the competitiveness of the UK included:

- A 2008 survey by Ipsos-Mori for BALPA which found that 76% of people said they would prefer to transfer via Amsterdam Schiphol if it meant saving £85 on a long-haul journey
- An Airlines of America report, which found that between 2006 and 2009 the total US-UK passenger market declined by 9.7% while US-EU traffic rose by 3.4%
- Air Asia X citing – as mentioned above – APD as one of the reasons that it abandoned its UK/Kuala Lumpur routes
- Anecdotal evidence suggesting that there is now a flow of German residents to Amsterdam Schiphol, and other Dutch airports, such as Maastricht Aachen, in order to avoid the German version of APD. This became possible only when the Netherlands removed its version of APD.

Impact on leisure travel

Significant pressure from the high level of APD is felt by leisure travel which, in general, is more discretionary than business travel. This is because visitors to the UK have a choice as there are a multitude of destinations to visit. These passengers are very price sensitive due to the discretionary nature of the expenditure¹⁰.

It was also noted that passengers on low cost airlines such as Ryanair and easyJet were most likely to be impacted by APD as it represents a larger proportion of the customer's expenditure on fares – Ryanair's average short-haul fare is now £44 meaning that a £13 APD charge represents 30% of the cost of the flight, albeit not necessarily on the total costs levied by Ryanair on a passenger after credit card fees, baggage charges, and other charges are also included.

It was noted that the MICE (Meetings, Incentives, Conferences and Events) component of business travel would also be more adversely impacted than normal business travel because destinations compete with each other to host events. The Group heard that Air Passenger Duty is part of the basket of measures that is considered when locating an event as it adds additional expense for participants.

Specific impacts on regional and 'point to point' airports

Considerable evidence was received that those airports that would be most impacted by rising APD charges would be the regional, or point to point, airports where the economic viability of routes was lower due to smaller markets and fewer feeder routes. The 2010 study by York aviation for MAG concluded that while aviation demand in London and the South East is fairly inelastic, passengers elsewhere in the UK are far more price sensitive. This is counter to the Government's aims of rebalancing the UK economy and to spreading aviation demand away from the South East.

¹⁰ VisitBritain, The Price Sensitivity of Tourism to Britain, 2001.

“APD is effectively a tax on international connectivity, which is an essential ingredient in promoting economic growth” – *Gatwick Airport*

In providing evidence, a number of witnesses highlighted the fact that the impact of APD on the competitiveness of the UK should not be considered in isolation. Rather, they felt that APD was one of a number of “straws breaking the camel’s back” in that its impact in isolation was not as significant as its impact in conjunction with other issues that impacted upon the international competitiveness of the UK as a destination. These issues included aviation capacity, being outside the Schengen zone for visas, and higher VAT rates on tourism products and services than other EU Member States. The Group agrees that looking at external costs and relative attraction of a destination compared with alternatives from a ‘basket’ approach rather than investigating each in isolation would be helpful as this is, ultimately, what the consumer considers in making purchasing decisions – what is the *total* price rather than individual component pricing.

b. Please quantify the benefits and/or advantages, as you see them, resulting from the APD that is levied on passengers departing UK airports.

Four main advantages were put forward for the application of APD to flights:

1. That it enables the Government to raise revenue from a sector of the economy that is considered to be “under taxed” due to its exemption from Fuel Duty and VAT
2. That it will reduce the UK’s tourism balance of payments deficit
3. That it provides an environmental benefit by discouraging people flying
4. That it helps pay off the deficit

Raising revenue

The Office for Budget Responsibility had forecast that APD would rise to £2.2 billion in 2011/12 (actual is £2.6 billion)¹¹ and that, with the increases announced in the 2012 Budget, APD receipts will rise to £3.9bn per annum by 2016/17¹². This represents an increase of 77% in just five years.

There are a number of benefits to the Government in raising APD:

- It is easy to administer
- It has very low collection costs, second only to VAT
- There is a very low avoidance rate
- Around 40% of the duty is paid by overseas residents
- APD receipts are relatively stable and easy to predict
- There is a low consumer awareness of the tax
- Airlines bundle the cost of the tax in a ‘bucket’ called ‘Taxes and charges’ making the tax more opaque to the consumer

¹¹ HMRC, APD Bulletin, March 2012

¹² Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2012

We recognise that while the ease to the Government in collecting a tax is relatively attractive to Government, it is not a rationale in itself for imposing it. There have been very large increases in APD over the last five years which have vastly exceeded the rate of inflation and the Government has not provided any rationale for these increases in terms of either altering adverse behaviour or more fairly apportioning the tax burden. Neither has it shown the consequence to UK plc and its relative competitiveness.

In terms of the sector being “under taxed”, as we have discussed earlier, we do not believe aviation is under taxed compared to other modes of public transport. Indeed, evidence was presented from Oxera to suggest that the aviation sector is actually over taxed compared to other industry sectors¹³. In addition, other transport sectors, notably shipping, incur no APD equivalent.

The Group believes that a reason successive Governments have been able to raise APD to current levels is a result of low consumer awareness of the tax. The industry practice of bundling the tax within a broader ‘taxes and charges’ bracket on receipts means that it is harder for a consumer to become aware of how much tax they are paying. We believe that taxation should be transparent and therefore there is a challenge for industry as well as Government in APD visibility.

Finally, it was noted that the raising of APD is part of the Coalition Programme which states that APD will be changed from being applied on a “per passenger” to a “per plane” basis with some of the increase being used to fund a proposed increase in the personal allowance to £10,000 by 2014. While the Government has now decided that it will not change the way the APD is applied, the rate at which it is applied has certainly increased.

Reducing the ‘Tourism Deficit’

The campaigning group Stop Stansted Expansion provided evidence that increasing the cost of flying would reduce the amount of overseas travel undertaken by UK residents. It was stated that this would help reduce the UK’s tourism deficit, currently standing at £13bn per annum, and boost growth and employment as UK residents undertook holidays at home rather than overseas.

However, while it is undoubtedly correct that increasing a tax on overseas travel would reduce travel and probably increase domestic tourism, there is a fundamental problem in that this is essentially an argument to create growth in the domestic economy by imposing a trade barrier. As such, it is contrary to international agreements and would invite retaliatory action by overseas countries which would be detrimental to the UK economy. Many overseas countries rely on inbound tourism and a reduction in UK tourists visiting their countries would cost local jobs and hurt local economies.

Furthermore, as the Association of National Tourist Office Representatives (ANTOR) points out within their submission, tourist offices in the UK spend significantly on marketing activities in the UK; APD is a disincentive for them to continue investing in this market.

¹³ Oxera, What is the Contribution of Aviation to the UK Economy?, 2009

The All Party Group believes that in an increasingly-globalising world where connectivity will be more and more important, the consequences of imposing unilateral trade barriers need to be fully understood.

ABTA – The Travel Association recently published research that it commissioned from the Centre for Economic and Business Research (Cebr) which found that outbound travel directly accounts for 1.6% of UK GDP (£22 billion), with a total economic impact through the supply chain of 3.8% of GDP (£55 billion)¹⁴. The research also found that the sector underpins more than 1.2 million jobs across the UK economy, and brings in over £6 billion in tax revenue to HM Treasury. Crucially, the report underlines the critical mass of other industries across the UK economy that outbound travel touches, and supports, such as retail, financial services, and construction.

An analysis of domestic spend on outbound travel also questions the credibility of the ‘tourism deficit’ claims. The report places domestic spend on outbound travel in the UK at £31.2 billion (compared to £31.6 billion spent by UK residents abroad). The £22 billion generated in the wider economy by outbound travel more than compensates for the difference of £400 million recorded. These figures have also been corroborated by the Office for National Statistics (ONS), which in their recent Tourism Satellite Accounts report found that spend in the UK on outbound travel was £22 billion in 2009¹⁵.

This is a considerable contribution and one that dispels the myth that trips abroad by UK residents have a negative impact on the UK economy.

Environmental benefits

There is an argument that APD provides environmental benefits. This argument has been put forward by both the Government and the environmental lobby at various stages in the last decade.

There is an acceptance by the sector that the aviation industry should pay the environment costs associated with its operation – the internalising of external costs – an aspect that the Group supports. However, the sector also believes that the environmental costs are already being covered by the current level of APD being levied. In their submission, ABTA presented Department for Transport figures that show that the environmental costs associated with air travel are between £2.18 and £3.30 for short-haul flights and £18.05 and £20.24 for long-haul flights. This means that the current rates of APD considerably exceed what would be required to pay the environmental cost associated with air travel. Indeed, the Group notes a statement by Rt Hon Ruth Kelly, Secretary of State for Transport in 2008 that “Since APD was doubled, aviation will meet its climate change costs, taking account not just of carbon dioxide emissions, but of the other aviation greenhouse effects such as NOx emissions and contrails.”¹⁶

¹⁴ Driving Growth: The Economic Value of Outbound Travel (2012)

http://www.abta.com/about/lobbying_and_government_affairs/DrivingGrowth

¹⁵ The Economic Importance of Tourism: UK Tourism Satellite Account 2009

http://www.ons.gov.uk/ons/dcp171776_268473.pdf

¹⁶ House of Commons Debate, 2 April 2008

<http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080402/debtext/80402-0017.htm>

The actual purpose of APD has been an issue that has impacted this tax since it was first introduced. The current Government stated in the 2011 Autumn Statement that APD should now be regarded as “purely revenue raising” with the environmental costs of aviation being paid for by aviation’s participation in the EU Emissions Trading Scheme (ETS). As ETS is designed to price-in the environmental externalities associated with air travel, the case for applying and increasing APD on the basis of environmental impact is now redundant.

Indeed, the Group notes that this has also created a second cost for aviation through the purchase of Carbon licences. The costs of which depends on the price of carbon and the carbon licences required by an airline to operate its business model. This is a much less transparent cost to air travellers and one that adds further cost to air travel. The most comprehensive study to date on the cost implications of ETS was conducted in February 2011 by *Standard & Poor’s Benchmarks, Research, Data, and Analytics (S&P)*. It estimates that in the first year of trading for airlines under ETS, the industry will likely incur costs of approximately €1.125 billion, based on an estimated carbon price of about €18 per ton.

The study estimates that by 2020, the cost of carbon will double to roughly €30 per ton, though the co-author of the study warned that this is at best a conservative estimate, and pointed to other studies which estimate that the price could reach €75 per ton by 2020.

The Group noted that the German Government has stated that it intends to offset the revenue received from the sale of ETS licences to airlines against the revenue from its version of APD. The UK Government has made no such statement and as such adding to the competitive pressures on the UK vis-à-vis its German competitors.

c. Should the Treasury commission an independent analysis of the economic impacts of APD?

There was almost universal agreement from those organisations and individuals that provided evidence to the Inquiry that an independent analysis be undertaken into the economic impacts of APD on the UK economy. Of the 40 submissions that addressed this question, 37 agreed that an independent analysis should be undertaken while only two submissions considered that such an analysis was unnecessary.

It was considered by many that little, if any, analysis of the impacts had been undertaken by HM Treasury of increasing APD in recent years and that while earlier analysis, when APD rates were significantly lower, may have shown that there was no adverse impact, the high levels of APD now being applied warrant a new analysis.

It was also considered important that this assessment examine the wider impacts of APD on the UK economy and the UK regions in particular, rather than simply the impacts on the aviation sector itself. The rationale for this being that air journeys are taken for a purpose – for example, to undertake a holiday, conduct business, or participate in an event or undertake study – which incorporates further expenditure and supports economic activity in a different economic sector than

aviation alone. Therefore, the impact of a tax that deters a person from undertaking a journey reaches beyond the cost to an airline of a ticket that is unsold.

There was also a view that such a study should incorporate ‘softer’ economic impacts, including the willingness of overseas businesses to locate offices and undertake business with the UK, the perceptions of overseas visitors of the UK being a welcoming destination for leisure travel as well as the longer term impacts of increasing APD such as the viability of the UK to retain its position as a major hub for European and global air travel.

The consensus of the businesses that provided evidence was that there should be a moratorium on the planned increases in APD until this work is undertaken.

We find that there is no evidence that the recent increases in APD have been based on a thorough modelling of the impacts of APD on the UK economy. Rather, it would seem that that increases have been imposed simply because it is a “successful” means for the Government to raise much needed revenue. However, we believe that the research needs to be undertaken jointly between the industry and the Government so the modelling used, and the assumptions on which the model is based, are agreed by all parties.

The Group notes that responsibility for commissioning this type of study need not only lie with Government. Industry groups have consistently made representations to this Group, and indeed, this inquiry, that the negative impact of APD on the UK economy is considerable. There is an opportunity for industry as well as Government to commission such research. Indeed, joint-research may be very beneficial.

The Group recommends that the experience of reducing APD in Northern Ireland, and the Netherlands, may serve as a good example that would benefit the wider debate. The economic impact of APD and the change that lower APD for direct Band B and above flights has brought has been much debated, scrutinised and assessed. A similar exercise for all GB departures would, we believe, yield considerable benefit.

PART I RECOMMENDATIONS

Recommendation 1 – There is considerable evidence from other European countries as to the adverse impacts of imposing Air Passenger Duty (APD) at any level – and there was some statistical and considerable anecdotal evidence received regarding UK residents and overseas visitors changing their itineraries in order to avoid APD, with many increasingly routing via Amsterdam. It is therefore recommended that work be undertaken to quantify the level of impact that current rates of APD are having on the travel behaviour of both UK residents and overseas visitors and determine if, as some believe, APD is resulting in diminishing returns.

Recommendation 2 – It is recommended that an economic analysis be undertaken of the total impact of APD on growth and employment in the UK economy and that it be undertaken jointly by the Treasury and the industry using the Treasury Computable General Equilibrium model, to report before Budget 2013.

Recommendation 3 – Evidence presented to the Inquiry on the price elasticities of fares to and from the UK was inconsistent with DfT evidence suggesting that air travel is not price sensitive, while evidence from the airlines and tourism industry suggest that customers are highly price sensitive to changes in fares and the overall cost of travel. It is therefore recommended that work is undertaken to determine fare price elasticities of leisure and business travel in order to provide a more accurate assessment of the impact of changes in APD.

Recommendation 4 – APD is one of a range of issues (including airport capacity, ETS, the cost of visas, and the relative attractiveness of visas to the Schengen-zone) that present barriers to inward business and leisure travel to the UK and place the country at a competitive disadvantage to other European destinations. It is therefore recommended that the Government develop a comprehensive growth strategy for aviation that addresses all “barrier” issues in a coherent and consistent manner.

PART II: THE ECONOMIC IMPACT OF THE AVIATION SECTOR

Background

In an increasingly globalised world, ensuring that all segments of UK businesses and society can connect easily and seamlessly to the global marketplace is essential. As an island trading nation, it is self-evident that the UK needs to be well connected internationally to all European and global markets. Aviation is key in facilitating this connectivity, creating jobs and driving growth. According to an Oxford Economics report in 2011, the aviation sector supports 921,000 jobs, contributes £49.6 billion (3.6%) to UK Gross Domestic Product, and provides £7.9bn in taxation to the Exchequer¹⁷. Few other industries can boast of its potential to create and sustain growth in a series of other UK industries, from manufacturing to tourism.

Carrying over 235 million passengers each year and over 2.3 million tons of freight, the UK's aviation industry not only delivers connectivity for business travellers and holidaymakers, but also provides important cargo capacity for high-value exports and time-critical goods¹⁸. As noted within the British Chamber of Commerce's submission to the inquiry, some 40 per cent (by value) of the UK's exports go by air¹⁹ and Heathrow is the UK's leading port by value.

The Department for Transport is currently consulting on a policy framework for the future of aviation in the UK. The aviation sector faces significant challenges in the short, medium, and longer-term; these challenges will impact upon businesses and communities across the UK. With that in mind, the Inquiry has asked a series of questions on the competitiveness of the sector, consumer demand and the role of Government in managing it, and the wider European context.

The principle of creating a policy framework is supported by this Group. We believe it can set principles for the long-term while providing flexibility for shorter term imperatives.

- a. What are the constraints which inhibit the growth of the sector, and therefore its ability to grow the economy?**

A coherent aviation policy from Government

A general consensus was evident among the submissions that the single biggest constraint inhibiting growth within the aviation sector is the absence of a coherent, cross-party policy framework through which the UK aviation sector can grow whilst meeting its sustainability goals.

We believe that cross-party support for a coherent and forward-looking UK aviation policy framework is crucial for the continued success of this nationally strategic business. It must be

¹⁷ Oxford Economics 2011, 'Economic Benefits from Air Transport in the UK'

¹⁸ Department for Transport <http://www.dft.gov.uk/aviation> (last visited 04/05/12)

¹⁹ DfT (2009), 'The Air Freight End to End Journey'

ensured that such a policy can be developed, supported and implemented to enable it to last beyond the life of a single Parliament, regardless of which Party is in power.

Unlike other transport modes, aviation and the infrastructure it necessitates require a great deal of forward-planning and many years for development. Therefore, any aviation policy must be robust, wide in scope, and entail more foresight and certainty than any one Government can provide. Without a cross-party approach that will survive changes in Government the sector will suffer from stop-start policy making which will be to the detriment of the whole UK economy.

The submission from the International Air Transport Association (IATA) outlines what is at risk. It has been suggested that the UK is poised to miss out on trade and investment of around £14 billion in the next 10 years because of connectivity constraints at the UK's hub airport, Heathrow, if it does not develop and implement a sound aviation policy²⁰.

UK businesses and foreign investors cannot be expected to accept, nor can the UK afford, the stop-start aviation policy making of the last decades.

The history of aviation infrastructure development is steeped in delay and procrastination, a situation which has helped neither advocates nor objectors, merely UK competitors.

Aviation policy remains a controversial political issue but this Group considers the issue too important not to be addressed in a comprehensive, connected and consistent fashion. This Group believes the political leaderships of all main political parties must seek to rise to the challenge to provide a long-term framework for aviation.

The experience of the UK hub, Heathrow, and the third runway debate towards the end of the last Government in 2010 reminds us of the perils of a fragmented approach. As noted in Gatwick Airport's submission to the Inquiry, policy changes from above result in write-off costs for airport operators; without certainty that a policy can survive a change in Government, companies across the industry would be cautious about bringing forward proposals for investment. This cautious approach will limit aviation's potential to grow the UK economy.

This point was emphasised in Singapore Airlines' submission to the inquiry. The Government must recognise the importance of different factors in influencing business decisions to invest and locate headquarters in the UK. Without a clear aviation policy, capital will be invested elsewhere where certainty is more assured. For the UK economy to compete in established and emerging markets for investment, the UK must have a comprehensive aviation policy in place that involves excellent aviation connectivity right across the country, with world class hub capacity and vibrant point to point airports. That policy must recognise both the infrastructure requirements in terms of runway and terminal capacity (and associated airspace management issues) but also crucially, the impact on airline service and network development that will be impacted without such recognition.

²⁰ Connecting for growth: the role of Britain's hub airport in economic recovery, Frontier Economics, 2011

We are in agreement with the near unanimous calls from industry for certainty in future aviation policy.

To this end, we caution the Government against championing any policy measures that are certain to inhibit cross-party support and moreover call for the Government and Opposition to adopt a cross-party approach to this issue.

While the positive impacts of the sector are many, we are in agreement with the submissions that outline aviation's impact on communities and to the global environment. The sector has a responsibility that should not be taken lightly. While this will be developed further in Section 3, the below recommendations should be considered in the context of the industry continuing to deliver its sustainability objectives.

Capacity constraints at the UK's hub airport

Devoid of a far-reaching and cross-party policy framework, the single most persistent constraint inhibiting growth in the sector, and its ability to grow the UK economy is that the UK's hub airport is operating at full capacity.

Capacity constraints at Heathrow are restricting the UK's economic potential. Hub airports are uniquely capable of viably serving a greater route network, offering higher frequencies of flights than might otherwise be economically sustainable. This is often referred to as *connectivity*. Good connectivity brings with it a significant economic benefit, making a country more attractive for international trade and foreign investment. As VisitBritain notes, UK businesses trade 20 times as much with countries that have a daily direct flight to the UK as they do with those countries that do not²¹.

A lack of capacity at Heathrow will constrain connectivity. This is because new routes to the emerging markets which represent the greatest economic potential to the UK, such as China and Brazil, cannot be opened up. Airlines could not be expected to substitute established and successful routes which provide an economic return for unproven new routes. The result has been that the number of destinations served by Heathrow has reduced steadily in recent years, from 227 in 1990 to 180 today²². By contrast, Amsterdam's Schiphol Airport serves 313 destinations²³ while both Frankfurt and Paris Charles de Gaulle serve over 250 destinations²⁴.

Some of the submissions questioned whether airlines and airport operators were making optimal use of Heathrow's capacity, outlining that Heathrow continues to be dominated by leisure passengers; but the evidence presented fails to appreciate the overall market composition and airline economic reality. It is however unclear why leisure traffic should be deemed to be sub-optimal given the importance of tourism to the UK economy. The Group believes there is a value in

²¹ VisitBritain submission

²² London Chamber of Commerce and Industry submission

²³ Schiphol Group – <http://www.schiphol.nl/SchipholGroup/Company1/Statistics/FactsFigures.htm>

²⁴ <http://www.frankfurtairportguide.com/>

all passengers, leisure, business and those flying to visit friends and relatives. There was no credible evidence produced to counter this understanding.

The Local Authorities Aircraft Noise Council's (LAANC) submission to this inquiry argues that London is already served by five major airports, some with spare capacity. What this view fails to recognise is that there is a fundamental difference in the role and relative economic importance to the UK economy of hub and point to point airports.

Providing airport capacity where there is limited or no demand is both costly and futile. This is what the Canadian Government learned in developing Montreal Mirabel Airport 25 years ago to replace Dorval without simultaneously closing Dorval. Our Adviser has pointed out that whenever regulatory or capacity restrictions on access to Heathrow have been relaxed, as was the case with the abandonment of Traffic Distribution Rules (TDRs) in 1991 or the more recent EC US Open Skies Agreement, airlines and passengers have focused on Heathrow with its larger market, higher yields and opportunity for economy of scale. Virgin Atlantic's submission (among others) noted that the viability of many key business routes is dependent upon the combination of point-to-point, domestic and international transfer passengers and cargo that only Heathrow, as the UK's international hub airport, can provide.

The submission from the Board of Airline Representatives in the UK (BAR UK) highlights evidence from international airlines indicating that if slots at Heathrow are unavailable, rather than operate from another London area airport, they simply look at operating their aircraft to a competitor European hub. It is clear the UK is falling behind.

Importance of regional airports and point to point traffic

We identify strongly with the majority of submissions that regional airports with vibrant point-to-point links are vital to a healthy UK economy.

Regional connectivity, both to the UK hub, but also importantly to other markets across the globe, is absolutely fundamental to the regional and national economies of the UK. This is particularly the case in relation to tourism, where all three sectors of the industry (inbound, outbound, and domestic) are reliant on excellent point to point airports to deliver the economic growth and jobs that it is capable of.

In fact, parts of the UK sit on the periphery of Europe, and as such, are uniquely dependent on point to point links to stay connected to the world economy. This is particularly true of Scotland and Northern Ireland, as well as the regions to the North and West of England.

The Government's aviation policy must recognise the unique reliance of these parts of the UK on air services. The All Party Group received many submissions from Scottish organisations which were very concerned on this point.

We identify with the submissions that emphasised that only with enhanced connectivity would the Scottish economy be in a strong position to welcome inward investment, opening up foreign

markets to Scottish businesses, raising productivity in the Scottish economy through lower transport costs, and by encouraging local businesses to specialise in areas that play to the economy's strengths.

Impact of capacity constraints on regional airports

While there is not presently a capacity problem at regional airports, the capacity challenge at Heathrow has become increasingly problematic for regional airports in establishing links to the UK hub. 18 regional airports were served by Heathrow in 1990, but this has fallen dramatically to only six of the UK's regional airports at present²⁵. At the same time, routes between the UK's regional airports and Amsterdam's Schiphol Airport have increased dramatically, with 18 regional airports now having direct links to the Dutch hub²⁶.

We believe the regions and nations stand to benefit significantly from connectivity to a hub, spreading the economic benefits of air links to the global marketplace across the whole of the UK. Aviation does not just provide or facilitate jobs in the south-east of England. This inquiry received many submissions from businesses and groups across the whole of the UK whose businesses are reliant on excellent air links, and that as a result of reduced or non-existent connectivity with Heathrow are now suffering. The recent Government Consultation on aviation which focuses on the regions recognises the crucial importance of regional links to the centre; but fails to offer solutions to resolve that problem.

Increasingly, the UK's hub activities are being outsourced to competitor European airports. As outlined earlier, an interesting statistic provided by MAG during an oral evidence session was that Manchester's sixth biggest, highest volume flight route is into Amsterdam Schiphol. Exporting the UK's hub to European competitors is bad for UK businesses, and limits the prospects for job creation here.

As noted above, the All Party Group has received a large number of submissions in relation to the impact of Heathrow's capacity constraints on Scotland. Scotland has a limited number of international direct services connecting the nation beyond the UK, and many of these are connections over Amsterdam, Paris and Frankfurt. Scotland relies heavily upon the essential connectivity over a London hub airport to a wide range of additional destinations. British Airways carried 2.6 million passengers to and from Scotland in 2011 with 430 flights per week to and from Heathrow and Gatwick and two thirds of these passengers travelling onwards to other destinations²⁷.

The submission from the Scottish Council for Development and Industry (SCDI) used the example of Glasgow businesses to highlight this point. For Glasgow businesses, exports represented over 50% of their annual turnover, over 25% of which was reliant on aviation to export to overseas markets.

²⁵ Laurie Price – <http://www.caa.co.uk/docs/33/CAP754.PDF>

²⁶ http://www.klm.com/travel/nl_en/index.htm

²⁷ Submission from Scottish Passenger Agents' Association

Furthermore, as highlighted by Nestrans, time-savings created by direct links to Heathrow and beyond have a very important positive impact. Aberdeen City and Shire Economic Future (ACSEF) along with Aberdeen Airport commissioned a study to identify the economic impact that Aberdeen Airport has on the economy of the North East of Scotland. The energy industry in Aberdeen City and Shire supports 44,000 jobs and for Scottish users alone, the present value of journey-time savings created by having the airport and its connections to Heathrow was estimated at between £859 million and £1.7 billion.

A short, medium, and long-term solution to the problem

In order to ensure that the UK does not lose its competitiveness in the air transport sector with traffic leaking to continental hubs as an irreversible trend; we believe that immediate action is required. While the Government's stated commitment to create a long-term policy framework for aviation is to be welcomed, a solution to the short and medium term challenges is necessary; jeopardising £14 billion of investment by 2020 cannot be in the interest of the nation, the UK economy or the Government.

We believe all sustainable options should be considered for increasing capacity as soon as possible at the UK's only hub. A series of short to medium-term solutions have been suggested to the inquiry within the written submissions and oral evidence sessions. One being that Heathrow should be *squeezed* for further capacity through limited relaxation of night flights rules, and careful use of mixed-mode on the airport's two existing runways; NATS estimates that such an increase could add 15 per cent to Heathrow's capacity²⁸.

However, as noted in BAA's oral evidence, mixed mode would have particularly adverse consequences for people living under Heathrow's flight path in west London. Any analysis of the potential benefits of a shift to mixed mode will have to take into account the impact on the communities under the flight path.

The Group welcomes the focus on noise in the Department for Transport's Sustainable Aviation Framework consultation published in July 2012. We believe that aviation expansion is important, but not at any cost; significant effort would have to be made to mitigate the impact of aircraft noise on these communities.

A second short to medium-term solution that has been suggested as a means to relieve capacity constraints at Heathrow is bringing into use a satellite runway. RAF Northolt has been suggested because of its close proximity to the main airport site, and because a full operational runway is already in existence there. RAF Northolt has been identified by some as an attractive proposition as it would fit neatly into the Government's policy for no third runway at Heathrow. Furthermore, Northolt is only some five miles from Heathrow, with excellent London Underground and potential heavy rail links to London. However, during the oral evidence session, BAA explained that Northolt did present some issues that needed to be addressed, although it was acknowledged that the idea could work.

²⁸ <http://www.uk-airport-news.info/heathrow-airport-news-161206a.htm>

The All Party Group's Adviser has noted that the alignment of Northolt's existing runway is 20 degrees convergent with that at Heathrow. It does already have approved procedures to successfully operate in parallel with Heathrow for the existing 7,000 Business Aviation Movements currently permitted annually, as well as to meet Ministry of Defence requirements; most recently in association with the Olympic Games in London. Furthermore it is some 4 miles further north of Heathrow than the proposed Sipson third runway alignment, which would have been able to handle some 200,000 air transport movements (ATM) a year in addition to the current 480,000 ATMs at Heathrow.

Regulatory framework in the UK

A significant constraint on the industry identified in many submissions was the regulatory burden. Following the 2010 General Election, the Government set out to reduce bureaucracy in Whitehall in order to encourage growth within the private sector. In 2011, this led to the launch of the Red Tape Challenge, allowing individuals and businesses to suggest what regulations should be scrapped, and what regulations should be simplified.

This policy, as well as the Government's 'one-in, one-out' policy, has sent the signal that Government is serious about cutting red tape. With the Civil Aviation Bill intended to improve regulation of aviation, and the Red Tape Challenge now considering aviation regulation as part of the Government's wholesale review of Whitehall regulation, an improved regulatory framework will help businesses to deliver jobs and growth; however, the material benefit of these efforts has yet to filter through to or be realised by the industry.

Aviation taxation

The impact of Air Passenger Duty as a constraint on growth within the aviation sector has been fully documented in Section 1 of this report; however, near unanimous in the submissions was the belief that the high level of aviation taxation evident in the UK was placing the UK at a disadvantage, and inhibiting growth within the sector and the industry.

b. Should it be the role of Government to manage aviation demand?

Government involvement in the management of aviation demand is a subject matter that elicited strong feelings in the responses received by the inquiry. Of the 34 responses received on the question of whether it should be the role of Government to manage aviation demand, five respondents agreed, with an overwhelming majority of respondents (29) disagreeing with this statement.

There was a strong sentiment within the responses that the role of Government should not be to manage demand; instead it should focus on developing a policy framework that enables the aviation industry to respond to demands from passengers and businesses and its contribution to the economy while ensuring the UK retains its key hub position as a global trading nation.

Market forces and requirements of commercial businesses

We agree with the majority of submissions that where commercial airlines decide to develop their services, capacity, frequencies and networks is a matter for their commercial judgement and the normal operation of market forces. This view was also recently supported by the Aviation Minister Theresa Villiers who said that “airlines operate in a commercial competitive environment and they decide which routes to operate”²⁹. It is self-evident that for there to be sufficient demand in order to mount a viable service the level of demand and associated yield has to be sufficient not to justify the airline redeploying that aircraft to a different route serving an alternative market and destinations.

Furthermore, evidence from ABTA noted that passengers want to fly from the airport that is most convenient, which usually means the airport closest to one’s home or business, plus the one that has a service going where the passenger wants, at the most convenient time and at an affordable price. Heathrow and Gatwick are the UK’s busiest airports; however it should be remembered that they are also the local airports for millions in the communities which surround them.

Where Government has in the past attempted to manage aviation demand, the results have been unsuccessful; as an example of this, the case of TDRs has already been highlighted. Previous examples with BCAL as the Second Force focused on Gatwick, the Bermuda 2 Bilateral policy, and CAA licensing policies in favour of Gatwick development have all come to naught.

TDRs had been introduced in the past to stop air traffic operating from an airport of first choice, in the process, creating an artificial demand at certain other airports. Our Adviser also told us that the original TDRs were introduced in London in 1977 which prevented any airline which had not operated scheduled passenger services on or before July 1977 from operating to London Heathrow. This was implemented in parallel with the signing of the Bermuda 2 Bilateral treaty with the USA which stated that all new US –UK routes to London would have to use London Gatwick. The TDRs were withdrawn in 1991 resulting in 2 million passengers and some 20 airlines moving from Gatwick to Heathrow. The EU –US Open Skies Agreement signed initially in 2007 brought to an end the Bermuda 2 restriction resulting in a further mass move of US–UK services from Gatwick to Heathrow.

This cemented Gatwick’s revised role primarily as a point to point airport. That resulted in an increasing focus on Low Cost Airline operations as easyJet proceeded to transfer some of its Stansted operation into Gatwick and the vacated slots from airlines that transferred to Heathrow, in addition to its take-over of GB Airways at Gatwick.

In 1990, the lifting of the Scottish Lowland traffic distribution rules that had established Prestwick Airport’s *sole trans-Atlantic gateway* status was removed by the Government because this policy was thought to be detrimental to passengers, and the wider Scottish economy³⁰. This shift resulted in the wholesale shift of transatlantic traffic from Prestwick Airport to Glasgow International Airport, the preferred airport for passengers.

²⁹ HC Deb 30 April 2012 cc1274

³⁰ <http://www.publications.parliament.uk/pa/cm198990/cmhansrd/1990-03-06/Writtens-1.html>

Further examples of the failure of Governments to artificially create demand at certain airports through the use of TDRs include the Japanese in Tokyo between Narita and Haneda. On balance, TDRs distort the market, and have proven unhelpful. As a general principle, we believe TDRs should be avoided where possible.

Of the submissions that agreed that Government did have a role to play in managing aviation demand, and those that did not, the point was made that the Government already does this. For example, Heathrow Airport highlighted that aircraft movements at that airport are limited by the Government to 480,000 movements annually; whilst the Government continues to require night movement restrictions and runway alternation policy at Heathrow.

Other submissions argued that Government should be going much further. Specifically, there is a belief by some that airlines are not charged appropriately for slots at Heathrow. The argument follows that by not charging appropriately for a scarce resource, Heathrow over-serves some destinations, and forces other airports to compete for low cost, low yield point to point traffic on the open market.

However, it is argued that an increase in cost for slots, or a tax on slots, at congested airports would force airlines to consolidate around the thickest, most profitable routes. This would inevitably lead to a reduction in the routes served and/or a transfer of services to near-Continental airports. This would make starting new routes to emerging economies even more difficult. At any rate, such local rules would contravene international agreements on Slot Allocation and European Airport Slot Allocation Regulation.

The All Party Group believes that the forthcoming strategy from Government on capacity should further investigate this area. We believe that a system of ensuring that the secondary trading market operates as unfettered as possible rather than an approach that seeks to introduce slot controls or artificial pricing of slots; albeit that we would wish to see some accommodation and protection for vital UK regional connections to the hub, protected if necessary via the PSO mechanism.

Impact on passengers of managing aviation demand

Of the submissions in agreement that the Government does have a role to play in managing aviation demand, there is a belief that the only effective way to do this would be through the suppression of passenger demand through heavy taxation, as suggested in LAANC's submission.

The majority of submissions to the consultation believe that the impact of APD on passengers is already such that consumers are being priced out of the market. While ample evidence has been provided outlining the relative high level of APD in comparison to other European countries, more effort should be made by the industry to produce data outlining the direct correlation between the level of APD, and passengers being priced from taking flights.

For routes to remain viable, connecting the UK to the global marketplace, flying must remain affordable for all passengers. Attempting to free up capacity through measures to price certain

passengers out of the sky is neither a fair solution, nor an economically sustainable solution in the long-term.

This inquiry believes that the Government should not interfere with market forces in an effort to find a solution to the fundamental problem facing the sector – capacity constraints at the UK’s hub airport. Any solution that does not address this fundamental problem directly will not create the framework the industry requires if it is to deliver growth to the UK economy.

Within such a framework UK airports and airlines will then be able to make decisions that best meet UK aviation demand and provide the greatest benefit for passengers. Artificial measures by Government to manage demand risk inviting retaliatory measures by other states and creating perverse outcomes which distort markets to the disadvantage of the UK economy and consumers.

c. Are there lessons to be learned from aviation policy in other EU countries?

Of the 42 responses received on the question of whether there are lessons to be learned from other EU countries on aviation policy, 40 respondents said yes, and two of the respondents said no. We agree that within the EU, there are lessons to be learned from the approach adopted by some EU countries in developing their aviation policies.

The majority of submissions emphasise that the key lesson that the UK could learn from European competitors is that the most successful approaches to aviation policy are those that are holistic in nature. Aviation policies developed by Governments that recognise aviation as an economic driver, and who support it accordingly with co-ordinated infrastructure provision, good surface access and a considered approach to taxation, are facilitating the growth of an industry that will ensure their national economy is connected to growing economies across the world. Furthermore, the Group would suggest that review of the planning system is an important component in ensuring a viable future for aviation as it cannot be sustainable to repeat the 20 year planning saga that surrounded Terminal 5 for additional capacity in the future. A holistic approach from the UK Government is vital to the future of this country’s trade links, and future economic success.

Aviation taxation

The negative consequences of APD on the UK economy have been discussed in Section I of this report, and this point will not be addressed again here at length; however, it is worth reiterating that the cost of APD limits the competitiveness of UK aviation.

As noted in British Airways’ submission, the Governments of most EU states have recognised the global nature of the market for aviation services and sought to minimise national-level impediments to participation in that market, by minimising or abolishing distortive departure taxes.

Few countries in Europe charge a tax similar to APD. Of those that do, none charge it at a level comparable to the level it is charged in the UK. In Denmark, the Netherlands, and Ireland, recognition that the tax did more economic harm than good was substantiated by the fact that the respective Governments have reduced aviation taxation drastically, or abolished altogether.

The UK Government has a responsibility to consider APD as a central part of the debate over the competitiveness and future success of the aviation industry, as has been done in other EU countries. APD must not be considered as a mere appendage.

Infrastructure

Other European hub airports are enjoying significant progress in making hub capacity available to ensure excellent connectivity with key developing economic centres.

Not only have European hubs been successful at replacing Heathrow as key gateways to the UK regions (see *Impact of capacity constraints on regional airports*), they are also emerging as key threats to the UK's hub airport in terms of routes served.

As noted in Heathrow Airport's submission, connectivity is essential when developing the economic relationship between the UK and these centres; the UK's EU competitors have been very successful at doing this to date. For example, there are 21 emerging market destinations with daily flights from other European hubs that are not currently served from London.

The Group also acknowledges the importance of airspace as a pillar not only of national transport infrastructure, but also of international infrastructure; airports do not work without the airspace to deliver traffic in and out of them.

PART II RECOMMENDATIONS

Recommendation 5 – The aviation sector is of vital strategic importance for the future competitiveness of the UK. A cross-party, long-term consensus must be sought when developing the policy. Appropriate safeguards ought then to be put in place to ensure that any long-term policy decisions are implemented within this structure. This would provide a stable framework for growth, benefitting not only the UK’s aviation sector, but also provide certainty for private sector investors who pay for airport development, the UK industries reliant on first rate air connectivity, the millions of Britons reliant on air travel, and the local communities impacted by the sector, and of crucial importance, foreign investors.

Recommendation 6 – Given the economic importance of the aviation sector to the UK Economy, jobs and social cohesion and its reliance on a Government-regulated planning framework, the Government has a responsibility to outline a clear vision for the future of aviation within the UK without delay.

Recommendation 7– The UK’s hub airport is a nationally strategic asset that should be supported by the Government. All efforts should be made to ensure the UK retains and grows hub capacity, whether that entails further capacity at Heathrow, or a new purpose-built hub airport.

Recommendation 8 – We welcome the Government’s recognition that a sustainable framework to guide the aviation industry in its planning and investment is required for the short, medium, and longer-terms. However, an immediate solution is required in the interim until a more comprehensive solution can be implemented for the longer term. The Government should carry out a full assessment of the impact of mixed mode use of Heathrow’s runways and of using the existing runway at Northolt more effectively. This could be achieved through the transfer of the existing 7,000 annual Business Aviation movements to Farnborough, and their replacement with services to the UK regions that have lost connections to Heathrow over the last 30 years and some short haul services to be transferred from Heathrow to allow such “slots” to be back filled with long haul services to BRIC and other emergent nations not currently served from Heathrow. This will help to mitigate the capacity constraints currently being felt at the UK hub, and allow the UK to maintain its global leadership in aviation until a long-term aviation policy and runway capacity solution is reached.

Recommendation 9 – The decision of commercial airlines to develop their services and networks from specific airports is a matter for their commercial judgement, and the market. Previous regulatory intervention by Government to influence the market has failed. This inquiry believes that the Government should ensure that the market for secondary trading for slots at congested airports operates properly, save for safeguards for vital UK regional connections and should not be allowed to interfere with the broader issues in an effort to find a solution to the fundamental problem facing the sector – capacity constraints at the UK’s hub airport. We are also persuaded that the Government must protect the vital regional access to the UK hub airport either through the use of PSO or designating that a percentage of any new slots at or adjacent to the hub be allocated to UK regional services. In addition, seek to change the current EC PSO designation of

City to specific airport services. Any solution that does not address this fundamental problem directly will not create the framework the industry requires if it is to deliver growth to the UK economy. (See also recommendation 8 above)

Recommendation 10 – The Government should note with interest the significant investment that has been going into Europe’s largest hub airports outside of the UK (Frankfurt, Amsterdam Schiphol, and Paris Charles de Gaulle) in recent years. Furthermore, the abolition of aviation tax in other European countries because of its documented adverse impact on national economies has been outlined at length in this report. Utilising the experience of other European countries where aviation is supported and fostered as a national asset competing in a global market, this inquiry recommends that a Government review of aviation policy ought to consider the issues limiting the competitiveness of the UK sector in the round, including APD, the inclusion of aviation in the EU Emissions Trading Scheme, and the UK’s capacity constraints at its international hub.

Recommendation 11 – Air Passenger Duty and aviation policy sit within different parts of Whitehall but the Group believes that in considering aviation policy in the round, APD and aviation policy need to be considered together.

PART III: THE ENVIRONMENTAL IMPACT OF THE AVIATION SECTOR

Background

There was broad acceptance by those responding to the inquiry that the UK aviation industry ought to operate in a way that was environmentally and socially responsible whilst being sustainable for the long term, in line with the UK's international commitments on climate change. There was a level of disagreement regarding whether any growth in aviation is compatible with a commitment to reducing environmental and social impact.

Our view is that growth in aviation and the reduction of externalities are not contradictory goals. There are numerous examples of new initiatives being developed to reduce the impact of aviation on local communities, including ensuring maximum use of rail based public transport and achieving carbon neutrality. At a global level, more must be done to spread best practice and create a more co-operative approach between the aviation industry and local communities in order to resolve local issues. Many such initiatives are already in hand through groups such as IATA.

a. What is the overall impact of aviation on the environment in terms of emissions?

The aviation industry is a small, but very recognisable contributor to UK greenhouse gas emissions. The Department of Energy and Climate Change calculate that UK air passenger demand accounts for under 6% of the UK's total Green House Gas emissions³¹. It should also be noted that aviation emissions are also said to contribute to climate change through non-carbon effects, such as radiative forcing. While the non-carbon impacts are complex and not yet fully understood, we do not believe that there is sufficiently robust evidence to suggest that the overall impact is significantly greater than the CO₂ emission level suggests or indeed from other forms of transport which have higher levels of emissions and for which no APD equivalent is yet payable, and for which provision of additional infrastructure is being facilitated by Government; as for example with ports and shipping.

On a global level, the contribution of the aviation sector to global emissions is even smaller, estimated at around 2% of total global emissions³² (although evidence presented by Stop Stansted Expansion argues that the sector could be responsible for up to 4.9% of global emissions)³³. This proportion is estimated to grow by just 0.5% by 2050³⁴, albeit that the industry has undertaken to not exceed 2005 emission levels by 2050 under the EU Emissions Trading Scheme; a point made in a number of submissions to the Inquiry.

That the UK's level of aviation emissions is higher than that at a global level is to be expected due to the UK's geographic position, its leadership in international air transport with the world's busiest hub airport, its highly developed internationally focussed economy and a significant tourism industry. As there are limited alternative international transport routes, aviation will continue to be

³¹ Department for Energy and Climate Change, 2010 UK Greenhouse Gas Emissions – Final Figures, 2012

³² IPCC, Special Report: Aviation and the Global Atmosphere, 2009.

³³ Lee, David S, et al, Aviation and global climate change in the 21st century, Atmospheric Environment, 2009.

³⁴ IPCC, Special Report: Aviation and the Global Atmosphere, 2009.

one of the dominant conduits for the country's trade, tourism and economic prosperity. The associated impact on communities and the environment need to be viewed in this context.

We believe that because aviation is highly visual, there is a widespread public perception that the emissions generated by the sector is greater than the actual level generated. Our Inquiry found that only 15% of individuals surveyed knew that aviation's carbon impact was below 10 per cent of total global emissions³⁵.

For example, the UK shipping industry produces a similar level of emissions to the aviation sector but does not attract the same level of environmental scrutiny; a contrast which helps to place them in their proper context.

Because there is an apparent misconception as to the level of emissions generated by the UK aviation industry, there is a corresponding misconception as to the environmental benefit that might be achieved from reducing the growth in aviation. For example, evidence submitted by Peel Airports stated that, if the UK aviation sector ceased altogether, this would only reduce global emissions by 0.1%³⁶.

Because the aviation industry contributes only 6% of the UK's total carbon emissions, the Committee on Climate Change has concluded that air travel in the UK could grow by 60% and the Government's reduced emissions target for 2050 can still be met³⁷. It is clear that all efforts should be and are being made, as confirmed by the evidence received from the airlines, to reduce the impact of aviation on the environment. As such we conclude that environmental protection and aviation growth are not mutually exclusive. The industry must maintain its focus on and investment in environmental protection measures to enable it to grow and continue to make its significant contribution to the economy

There remain valid concerns regarding the localised impacts associated with airports, especially where airports are located near significant residential populations; albeit that airports do attract new resident population as people move in to an area to meet the needs of the jobs created by the airport

The evidence presented to the Inquiry indicated that many of these impacts are related to airports roles as major transport interchanges, where aviation, road and rail services meet. In many cases, it is pollution from road traffic near to, or associated with airports that are the major source of local pollution problems rather than the aircraft operations at the airport. The Group welcomes the focus on surface access of the Government and further welcomes the investment in new public transport road and rail links as announced in the 2012 National Infrastructure Plan.

We believe that impacts, especially those associated with air pollution, need to be addressed as part of wider planning and transport infrastructure strategies. It is our view that, while aviation expansion

³⁵ ABTA Consumer Survey 2010

³⁶ Aviation Foundation, Fast facts, 2012

³⁷ Committee on Climate Change, Meeting the UK Aviation Target – Options for Reducing Emissions to 2050, 2009

is compatible with the UK's environmental commitments, such expansion should only occur where there are clear, credible plans to tackle local impacts, regardless of whether these are caused by aircraft specifically, or by associated surface access (transport) to the airport. Indeed, we note that this is a view shared by many in industry; most recently Gatwick Airport's CEO, Stewart Wingate's comments on aviation calling for aviation growth "but not at any cost".

b. What is the overall impact of aviation on the population in terms of noise pollution?

Noise continues to be the single most pressing concern for most people living near airports or under flight paths.

Evidence presented to the Inquiry by airport operators shows that there has been a significant reduction in the number of people impacted by noise above the Government's 57 decibel LAeq 16 hour annoyance onset threshold level. For example, Heathrow Airport showed that the number of people exposed to noise pollution above this level has reduced from 2m in 1980 to 268,000 in 2008, while Glasgow Airport's noise footprint in 2006 was found to be less than half the size that it was in 1990 and Stansted reported that the number of people within their 57dba footprint fell from 2000 in 2005 to 1400 in 2011.

While the reduction of the 57dba footprint associated with airports is very welcome, it is evident that considerable concern remains. Some local communities fear that future growth in aviation will result in increased disturbance and a corresponding deterioration in the quality of life for those living near major airports. It is accepted that even if the noise generated by individual aircraft is reduced, an increase in the frequency of flights can increase levels of disturbance and that the degree of disturbance varies according on the time of day.

In reading the evidence and hearing submissions on noise, it is clear that this is an emotive subject and that the levels of impact can be somewhat subjective, where at times little distinction can be drawn between perceived impacts and actual impacts. Perceptions of increased noise also arise from changes to established flight paths or the timing of flight arrivals and departures.

The public's perception of what is acceptable in terms of noise pollution can also change over time. There would appear to be a tendency for reaction to disturbance associated with aircraft movements to increase when local communities have not been involved in the decision-making process; such as that which leads to a change in flight patterns, even where that change might be beneficial.

Whether the noise pollution associated with airport operations is real or perceived, there is no doubt that many people face disturbance from air transport operations and that a holistic approach is required for progress to be made on this issue. Such an approach needs to include the use of quieter aircraft, the introduction of improved operating practices at airports and the need for the planning system to recognise and councils to adopt sensible planning policies and safeguarding to ensure that development around airports is compatible with the airport's operation. Airline and Airport support for noise mitigation measures in the communities affected by airport noise is also an important part in managing the impacts from aviation.

It is evident that because of a range of characteristics including geography, airport use patterns and residential developments, there is no “one size fits all” solution for noise pollution. Rather, noise pollution needs to be assessed and solutions developed on a site by site basis but based on agreed standards, policies and practices.

One possible solution to noise pollution is the implementation of “Noise Envelopes” – defined areas surrounding an airport in which noise pollution must not exceed pre-described limits. The envelopes can be set on the basis of flight movements, noise levels, impact created by the noise or a combination of these measures.

This Group believes the concept of noise envelopes provides a viable solution to the challenges of noise pollution with enough flexibility to account for specific local issues. However, to be successful, it is vital that the development and implementation of noise envelopes is undertaken in consultation between local communities and the whole air transport industry.

There is evidence that airport operators do understand this priority and implement case-specific solutions. Rather than just setting levels for noise pollution and taking readings to confirm adherence, there should be a more sophisticated approach to noise management which includes working with local communities. We believe that a more co-operative approach between airports and local communities should be encouraged and that best practice guidance should be developed on communicating to, and working with, local communities to develop solutions to local noise problems.

c. Is the aviation sector doing enough to address its impact on the environment? How can Government policy support further improvements?

The Inquiry received 45 responses on this question, which were relatively evenly split between those who considered that the aviation sector was doing enough and those who considered that more needed to be done to address the impacts of aviation on the environment.

The 2009 Oxera report for the AOA found that, in 2007, APD charges exceeded environmental costs associated with aviation by £600m. This surplus of taxation over impact was expected to rise to £1.1bn by 2012 as a result of increases in APD since 2007. However, while the industry pays more through APD than the environmental cost, none of the duty is hypothecated to initiatives that reduce or mitigate the impact. As such, simply paying APD does nothing to reduce aviation’s environment impacts.

It was acknowledged that considerable progress has been made by aircraft and engine manufacturers to reduce both air and noise pollution over many years. For example, aircraft today produces 70% less CO₂ and that fuel consumption per passenger mile has decreased by over 35% between 1985 and 2005³⁸. The noise produced by aircraft has also reduced significantly over recent

³⁸ Price Waterhouse Cooper, Transportation & Logistics Sector Climate Change Responses,

years. The Advancing UK AeroSpace, Defence & Security Industries (ADS) submission highlighted recent advances and the near future prospects for further environmental gains;

“the noise performance of aircraft such as the 550 seat A380 are setting new paradigms for noise performance – it’s QC 0.5 classification on arrival being equal to that of the older, and much smaller, 150 seat Boeing 737, and a quarter of that of the Boeing 747-400 it replaces. In the near term, new aircraft models are set to come on line starting now with types such as the Airbus A380, and Boeing 787, and Bombardier’s C Series, in the next few years that will provide gains in fuel efficiency of up to 20% over previous technologies, and up to 30% better than the aircraft they will replace.”

While rising fuel price levels are seen as a significant incentive for aircraft and engine manufacturers to produce more efficient designs, the increased complexity of new aircraft means that research costs have increased and into service production times extended. It is argued by the industry that without growth, it will become increasingly difficult to fund further research that would lead to the introduction of more environmentally friendly, quieter aircraft.

Apart from reference to the development of newer aircraft, the aviation sector evidence referred to action is being taken at national level to address environmental impacts through the Sustainable Aviation initiative. This is a programme introduced in collaboration with the Government in 2005. The goals of this initiative are:

- to improve fuel efficiency by 1.5% per annum through to 2020
- to achieve carbon neutral growth by 2020
- to achieve a 50% reduction in 2005 CO2 emission levels by 2050

Our Inquiry considers the Sustainable Aviation initiative to be a comprehensive and well considered long-term strategy for reducing the environmental impacts of aviation and commends the air transport industry for working together and including Government in its development and implementation.

It is estimated that achieving the Sustainable Aviation initiative goals will require airlines to investment around US\$1.3 trillion in new aircraft³⁹. While there is considerable evidence that UK airlines are investing heavily in new aircraft that will reduce impact on local communities whilst delivering greater efficiency and better fuel economy, we are concerned that the Governmental commitment to the strategy is not yet sufficiently comprehensive. The Government’s strong support is also required for on-going work to modernise and streamline ATC and airspace management across Europe, through the Single European Sky initiative which alone could result in emissions savings of 10%⁴⁰.

NATS, the UK’s main ATC provider, is already committed to reducing CO2 emissions from flights under its control by an average 10% per flight by 2020 and is leading ATC involvement in the SESAR joint undertaking.

³⁹ Air Transport Action Group, Facts and Figures, 2012

⁴⁰ Sustainable Aviation, Sustainable Aviation CO2 Road Map, 2012

We also believe that more should be done by Government to provide the financial incentives for businesses to undertake research and the associated investment necessary to achieve the strategy's goals. We commend IATA's view that the Government needs to fully support the commercialisation of bio-jet fuel, including recognising bio-jet fuel for incentives under the transposition of the EU Renewable Energy Directive into UK law, though bio-jet fuel production should not adversely impact food production.

At the local level, considerable evidence was presented by airports that they have developed and implemented sustainable development policies and are reducing carbon emissions. Evidence from Stansted highlighted that they had reduced CO₂ emissions by 14% between 2008 and 2011 (63,000 tonnes) through changes to facilities management and working with business partners, while Birmingham Airport outlined an extensive set of programmes designed to reduce the impact of the airport's operation on the local community and environment. This includes an innovative "Pathfinder" programme where, working with airlines and Air Traffic Control, flight paths are controlled to minimise disturbance to local communities.

d. In January 2012, aviation entered the EU Emissions Trading Scheme (ETS). Should the Government reduce APD to offset the impact of the EU ETS?

Almost all submissions received by the Inquiry were supportive of the inclusion of the aviation sector in the EU's Emissions Trading Scheme. While a number of airlines expressed concern regarding the operation of various aspects of the scheme, generally the responses from the sector welcomed the introduction of a "level playing field" with other industries and considered it only right that there be competition between industries to find the most efficient allocation of carbon quotas.

On the issue of whether APD should be reduced to offset against rises in the ETS, 29 of the 35 responses to this question agreed that the Government should reduce APD to offset costs associated with the introduction of ETS. The general consensus among these respondents was that APD and ETS charges were a form of double taxation. This view was supported by various Government pronouncements since the introduction of APD that it was an environmental charge aimed at reducing demand and covering the environmental cost of aviation, although it is noted that the Government now states that APD is simply a revenue raising tax.

The arguments for ETS being additional to APD were based on the premise that APD is a substitute for VAT and therefore is unrelated to environmental protection. The case was made that because fuel for private vehicles attracts a higher level of taxation than just VAT, aviation should attract ETS as well as APD.

As a result of our Inquiry we have concerns that, as APD charges are set to increase in line with inflation and ETS costs are expected to rise at a greater rate, there is significant potential for the combined costs to have a major detrimental impact on the relative competitiveness of the UK aviation industry and the affordability of air travel, especially for those on low incomes. As such, the independent analysis of the impact of APD on the UK economy should include modelling of the likely impact of future increases in ETS and APD charges combined.

PART III RECOMMENDATIONS

Recommendation 12 – Overall, aviation’s contribution to UK carbon emissions is low and it is accepted that growth in aviation is compatible with the Government’s reduced emissions target for 2050; however, there remain a number of localised adverse impacts. We recommend that expansion of aviation capacity is should only be permitted were there are credible plans to ensure that such impacts (environmental and social) are reduced to reflect the effect on local communities. .

Recommendation 13 – While there is considerable evidence of individual airports developing programmes to reduce environmental pollution and noise-related disturbance to local communities, there needs to be greater co-operation and sharing of best practice. We recommend that the aviation sector, NGOs, community groups and affected councils work together on the development of a Good Practice Guide for helping mitigate the externalities associated with air transport operations.

Recommendation 14 – We have already recommended that the Government should undertake an independent analysis of the impact of APD charges to the UK economy. This analysis should incorporate the impact of ETS. If the findings are that APD and ETS are together having a significant detrimental impact on UK air transport and competitiveness, then the Government should introduce a policy of reducing APD as ETS charges rise.

Recommendation 15 – We believe that the 2005 Sustainable Aviation initiative remains a credible strategy for reducing the impact of aviation on the environment. However, its success is dependent upon the aviation industry and the Government working together. We recommend that the Government renew its commitment to the strategy reaffirming its strong support for UK efforts towards harmonising and streamlining European air traffic management through the Single European Sky initiative and developing the incentives required to encourage private sector investment in new technologies.

SUMMARY OF RECOMMENDATIONS

Recommendation 1 – There is considerable evidence from other European countries as to the adverse impacts of imposing Air Passenger Duty (APD) at any level – and there was some statistical and considerable anecdotal evidence received regarding UK residents and overseas visitors changing their itineraries in order to avoid APD, with many increasingly routing via Amsterdam. It is therefore recommended that work be undertaken to quantify the level of impact that current rates of APD are having on the travel behaviour of both UK residents and overseas visitors and determine if, as some believe, APD is resulting in diminishing returns.

Recommendation 2 – It is recommended that an economic analysis be undertaken of the total impact of APD on growth and employment in the UK economy and that it be undertaken jointly by the Treasury and the industry using the Treasury Computable General Equilibrium model, to report before Budget 2013.

Recommendation 3 – Evidence presented to the Inquiry on the price elasticities of fares to and from the UK was inconsistent with DfT evidence suggesting that air travel is not price sensitive, while evidence from the airlines and tourism industry suggest that customers are highly price sensitive to changes in fares and the overall cost of travel. It is therefore recommended that work is undertaken to determine fare price elasticities of leisure and business travel in order to provide a more accurate assessment of the impact of changes in APD.

Recommendation 4 – APD is one of a range of issues (including airport capacity, ETS and visas) that present barriers to inward business and leisure travel to the UK and place the country at a competitive disadvantage to other European destinations. It is therefore recommended that the Government develop a comprehensive growth strategy for aviation that addresses all “barrier” issues in a coherent and consistent manner.

Recommendation 5 – The aviation sector is of vital strategic importance for the future competitiveness of the UK. A cross-party, long-term consensus must be sought when developing the policy. Appropriate safeguards ought then to be put in place to ensure that any long-term policy decisions are implemented within this structure. This would provide a stable framework for growth, benefitting not only the UK’s aviation sector, but also provide certainty for private sector investors who pay for airport development, the UK industries reliant on first rate air connectivity, the millions of Britons reliant on air travel, and the local communities impacted by the sector, and of crucial importance, foreign investors.

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APPENDIX I: LIST OF WITNESSES

First Oral Evidence Session – 16 May 2012

- Andy Meaney, Head of Transport Team, **Oxera**
- Kyran Hanks, Director of Strategy and Regulation, **Gatwick Airport**
- Tom King, Head of Government Affairs, **British Airways**
- Mark Tanzer, Chief Executive, **ABTA – The Travel Association**
- Ian Jopson, **Sustainable Aviation**

Second Oral Evidence Session – 20 June 2012

- Andrew Harrison, Chief Operating Officer, **Manchester Airport Group (MAG)**
- Nigel Milton, Director of Policy and Political Relations, **BAA**
- Penny Kemp, Environment Spokesperson, **Green Party**
- Adam Marshall, Director of Policy & External Affairs, **British Chamber of Commerce & Industry**
- Tim Leunig, Chief Economist, **CentreForum**

APPENDIX II: LIST OF WRITTEN SUBMISSIONS

A4A (Airlines for America)
Aberdeen Airport Consultative Committee
Aberdeen Airport Ltd
ABTA - The Travel Association
ADS
AEF (Aviation Environment Federation)
Airbus
Airport Operators Association (AOA)
Alex McWhirter/Business Traveller Magazine
American Airlines
ANTOR
Axe the Tax (easyJet, IAG, Ryanair, Virgin Atlantic)
BALPA (British Airline Pilots' Association)
BAR UK (Board of Airline Representatives UK)
BATA (British Air Transport Association)
BCC (British Chambers of Commerce and Industry)
Biggin Hill Airport
Birmingham Airport
Bristol Airport
British Airways
CentreForum
Chartered Institute of Logistics & Transport (CILT)
Ealing Aircraft Noise Action Group
Edinburgh Airport
Emirates Airlines
Essex Chambers of Commerce
Flybe
Gatwick Airport
Glasgow Airport
Graham Stephenson
Guild of Travel Management Companies (GTMC)
Heathrow Airport Ltd
Institute of Directors (IoD)
International Air Transport Association (IATA)
Kent County Council
Laurence N Price
Local Authorities' Aircraft Noise Council (LAANC)
London Borough of Hounslow
London Chamber of Commerce & Industry
London Stansted Airport
Malcolm Ginsberg/AERBT
Manchester Airport Group plc (MAG)
Medway Council
Michael Howorth
NATS
Nestrans
Newcastle International Airport Ltd
Noise Communications Solutions Ltd
OXERA Consulting
Peel Airports Ltd
Qantas Airways Ltd
Richmond Heathrow Campaign
Runnymede Borough Council
SASIG
Scottish Council for Development & Industry (SCDI)
Scottish Passenger Agent's Association (SPAA)
Singapore Airlines
Stop Stansted Expansion
Sustainable Aviation
Thomas Cook Group
Unite the Union
Virgin Atlantic
VisitBritain
Windsor & Maidenhead Aviation Forum

