

# Aviation duty: response to consultation

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November 2008



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# 1

## Introduction

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### Aviation duty consultation

**1.1** The Chancellor announced at the 2007 Pre-Budget Report (PBR) that the Government proposed to replace air passenger duty (APD) with a per plane duty (aviation duty) on 1 November 2009. A consultation followed. APD 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 has been through a series of reforms over a number of years.

**1.2** In developing aviation duty to replace APD, the Government set out its approach:

- to ensure that the aviation industry makes a contribution towards its environmental impacts and to ensure that the aviation sector continues to contribute fairly and equitably towards the funding of public services;
- to have a fairer duty more in line with the environmental impacts of flights, including the distance travelled, and which takes account of any social or economic impacts including market distortions;
- to provide incentives for the more efficient use of planes by taxing similarly sized aircraft the same, no matter how full the plane;
- as a starting assumption, to apply aviation duty to all flights taking off from the UK, as all aircraft produce emissions;
- to have a simple, transparent and coherent duty which imposes minimal administrative burdens on industry and Government and minimises the capacity for non-compliance and for artificial tax-motivated behaviour which does not deliver environmental benefits; and
- to ensure that it is compatible with the UK's commitments under international law, including the Chicago Convention, bilateral agreements and EU law.

**1.3** The Government conducted a twelve-week formal consultation from 31 January 2008, the consultation questions can be found at Annex A. The consultation document considered all aspects of the operation of the duty including:

- the basis of the tax – aircraft measure and distance;
- the inclusion of business and general aviation;
- potential exemptions;
- the inclusion of freight;
- the inclusion of transit/transfer traffic; and
- the administration of the duty.

**1.4** The Government received 170 written responses, submitted by a wide variety of organisations and individuals. A list of those who responded to the consultation is attached at Annex B.

**1.5** Both before and during the consultation period, HM Treasury engaged extensively with industry bodies, business representative bodies, airlines, freight carriers, business and general aviation representatives, regional stakeholders, environmental Non-Governmental Organisations (NGOs) and others with an interest in the subject.

**1.6** The Government is grateful for all the responses received and for the active participation of the various representative groups and organisations throughout the consultation process. The following chapters summarise the responses to the consultation exercise as well as the Government's response.

# 2

## Summary and Government response

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### Introduction

**2.1** The Government recognises the contribution that the aviation industry makes to the UK economy: providing around 200,000 jobs<sup>1</sup> and contributing at least £11.4 billion to national GDP<sup>2</sup>. It is further estimated that the aviation industry employs over 500,000<sup>3</sup> people in the supply chain. The Air Transport White Paper (2003) set out the Government's support for the sustainable growth of aviation.

**2.2** Aviation also impacts on the environment and contributes to global climate change. In 2006 the sector accounted for around six per cent of the UK's CO<sub>2</sub> emissions; however this share is forecast to grow to around 10 per cent by 2020, and by 2050, it is estimated that the sector will account for 35 per cent<sup>4</sup> of the UK's CO<sub>2</sub> emissions.

**2.3** The Government is committed to tackling climate change. The Climate Change Bill puts in place a long-term, credible and legally binding framework that will drive private sector investment in energy saving and low carbon technology and that deepens our level of ambition (80 per cent cut in greenhouse gas emissions by 2050). The Government's pioneering work on carbon budgets will embed carbon at the heart of its decision-making. The Government will ensure that policies respond to short-term pressures while supporting a sustainable economic recovery that delivers against long-term environmental objectives.

### Summary of consultation responses

**2.4** The Government is grateful to respondents for their contribution to the consultation process. The consultation exercise provided the Government with valuable information to consider when deciding on the future of aviation taxation in the UK. Respondents commented on the potential impacts of reforming aviation taxation from a duty based on passengers to one based on aircraft. These comments are summarised in more detail in subsequent chapters, but the key points raised were as follows.

### Basis of tax

**2.5** Basing a tax on emissions en route is not possible under international agreements. Therefore the Government proposed what it considered the best alternative and legal method for the basis of the tax, which was a measure of the aircraft combined with a distance measure.

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<sup>1</sup> Oxford Economic Forecasting, *The Economic Contribution of the Aviation Industry in the UK*, December 2006.

<sup>2</sup> *ibid*

<sup>3</sup> *ibid*

<sup>4</sup> This is based on UK aviation CO<sub>2</sub> forecasts from the Department for Transport (DfT) and assumes the UK domestic target for CO<sub>2</sub> reductions in 2050 is 80 per cent below 1990 levels and that abatement effort to meet the target is predominantly in the rest of the economy. These estimates are based on central emissions forecasts; adopting alternative underlying assumptions to reflect uncertainties when looking over this timeframe would change the estimate of aviation's share of emissions. DfT is currently updating its forecasts of aviation emissions for all years to 2050 and these are expected to be published before the end of the year. The 2050 share of aviation assumes that an illustrative 60 per cent emission reduction target is met by 2050. Figures shown are without taking any radiative forcing impacts into account.

**2.6** The Government's lead option for the aircraft measure was Maximum Take-Off Weight (MTOW). The airline industry and airports did not support this measure as they felt it did not reflect environmental performance or incentivise environmental efficiency - a view shared by environmental groups. The freight industry and manufacturers were also opposed, claiming aircraft rarely operate at MTOW and so would be unfairly taxed. Two alternative options were considered but most respondents shared the Government's initial view that the data for these options were not sufficiently robust to be the basis of the tax.

## Distance

**2.7** A key objective of aviation taxation reform was to make the tax take greater account of distance travelled, in order better to reflect the environmental impact. Therefore, the Government's lead option was that a distance measure should be used in conjunction with an aircraft measure in order to determine the basis of aviation duty.

**2.8** Overall respondents agreed that some measure of distance should be applied in determining the basis of the tax. However, some felt that a distance measure combined with MTOW would not be appropriate and any distance system based on first destination could create a strong incentive for passengers and freight with long-haul destinations to hub outside the UK. This could potentially increase overall emissions with a greater number of landing and take-offs, or simply displace CO<sub>2</sub> emissions from the UK to alternative hub airports. A great many respondents suggested that any banding system should have more than three distance bands and that the tax should be levied on final destination.

## Freight

**2.9** Respondents paid particular attention to the potential impact on the air-freight sector, which Oxford Economic Forecasting estimates directly employs around 37,000 and indirectly supports 84,000 UK jobs in 2007<sup>5</sup>. There was some support for including freight within the aviation tax regime as both environmental respondents and the airline industry felt that this would result in a far more even spread of the tax across the industry. Both airports and the freight industry were concerned that the duty would have a disproportionate effect on a highly competitive industry with high levels of price sensitivities. This increased tax burden could see freight-carriers moving their transshipment hubs to the continent, and this could lead to significant job losses in the UK and displacement, rather than reduction, of CO<sub>2</sub> emissions.

## Transit and transfer passengers

**2.10** Responses were mixed. Supporters of the proposal to include transit/transfer passengers in the tax made the point that as all flights have an environmental impact, it was not possible to defend an exemption on environmental grounds. These respondents also argued that excluding transit/transfer passengers represented a tax subsidy to that sector. Those against the inclusion of transit/transfer passengers felt that it would reduce the competitiveness of UK airports, reduce the number of routes from UK airports, and provide a financial incentive for passengers to choose to connect on the near continent instead, resulting in displacement, rather than reduction, of CO<sub>2</sub> emissions. Others thought this would threaten not only the airports but also foreign investment in UK businesses, and particularly those located in the regions.

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<sup>5</sup> Oxford Economic Forecasting, *The Economic Impact of the Proposed Aviation Duty on the Express Delivery Industry and UK Economy Final report*, 23 April 2008, p. 1

## Business and general aviation

**2.11** Business and general aviation (a catch-all term used by the aviation industry to cover non-commercial civil aviation which can include everything from hang gliders and helicopters to large jets) are in the main excluded from APD. As with freight, other areas of the aviation industry felt that including this sector within the aviation duty regime would result in a more even spread of the tax across the industry. Overall, the business and general aviation sector felt that they should not be included within the tax and also highlighted the differences in the allocation of free allowances for the EU ETS which the sector may receive.

## Exemptions

**2.12** The Government's broad aim was that all aircraft should be included, but recognised that there might be certain legal, social or economic grounds for offering specific exemptions. There was general agreement from respondents that exemptions should be given for public service flights, military flights and for those foreign diplomatic and military flights, to meet our international commitments. A variety of exemptions were proposed by respondents; however, others felt that there should be no other exemptions allowed as all flights create emissions.

## Administration

**2.13** The Government had proposed that aviation duty would be collected by airports. This model of collection was generally not welcomed. The business and general aviation sector felt that it would have a disproportionate impact on smaller airfields and airports felt that their involvement would add an unnecessary layer in the collection process and subject them to a significant cash flow risk. Airlines were concerned that airports would seek to charge a fee for these collection services and it would force operators to disaggregate their flight information in order to make separate declarations to the individual airports from which they fly. The consultation document also considered a system where the aircraft operator would deal directly with HM Revenue and Customs (HMRC). This option was favoured by the commercial aviation industry but not by the business and general aviation industry.

## The Government's response

**2.14** The Government has listened to the points made during the consultation process. Taking the concerns raised into account, particularly at a time of global economic uncertainty, the Government's decision on aviation taxation has been determined by:

- the need to ensure greater stability in tax policy at a time of great economic uncertainty and global challenges;
- the unanimous agreement now reached by EU member states in October 2008 to include aviation in the EU Emissions Trading Scheme;
- the need to maintain commitment to environmental objectives, especially to ensure that the structure of aviation tax sends environmental signals to passengers and the industry alike;
- the need in the present economic circumstances to mitigate the potential impact on the air-freight sector, the impact on employment in this sector, and the wider business community which relies on air-freight services;
- the need to mitigate the potential impacts that could be felt in the regions, both in terms of direct employment and in terms of connectivity;

- the need to avoid the disruption and costs associated with the transition to another tax; and
- the relative simplicity of reforming the existing APD regime to better reflect environmental impacts.

**2.15** Consistent with the Government's objectives to provide additional support to businesses and individuals in the short-term and maintain action on climate change, **the Government has decided not to proceed with a per-plane tax. Instead the Government has decided to reform the APD regime.**

**2.16** The main element of the reform of APD is to double the number of distance bands from two to four. From 1 November 2009, APD will be structured around four equi-distant bands, set at intervals of 2,000 miles from London. This reform will ensure that those flying farther, and therefore contributing more to emissions from aviation, will pay more.

**2.17** The reformed APD will continue to apply to passenger-carrying aircraft and the same exemptions will continue to apply, full details of the scope of APD can be found on HMRC's website<sup>6</sup>. Full details of the reform of APD are available in the 2008 Pre-Budget Report. This will provide greater stability in aviation taxation by minimising disruption and costs for the sector, and ensuring the tax is not extended to new sectors of aviation at a time of economic uncertainty.

**2.18** Economic impacts are being felt globally, and weaker growth is resulting in lower demand for air travel. However, as most of the aviation industry does not pay fuel duty or VAT on tickets, APD will continue to ensure that the aviation industry reflects environmental impacts and makes a fair contribution to the public finances.

## Long-term framework for aviation

**2.19** Aviation is, by its nature international, and the Government believes that action at an international level is needed to ensure the sustainable development of this sector. Therefore, the Government welcomed the success in achieving unanimous agreement, among EU Member States, on 24 October 2008 to include aviation in the European Union Emissions Trading Scheme (EU ETS). This will enable the aviation sector to take responsibility for its carbon emissions in the most cost effective way.

**2.20** All flights over 5.7 tonnes<sup>7</sup> (including freight and business and general aviation) arriving at and departing from EU airports will be subject to the EU ETS from 2012. CO<sub>2</sub> emissions from the aviation sector will be capped at 97 per cent of average 2004-06 levels in 2012 and at 95 per cent from 2013 onwards. The majority of CO<sub>2</sub> allowances for 2012 will be given to aircraft operators free of charge, but 15 per cent will auctioned. The European Commission has estimated that at a 95 per cent cap, aviation carbon reductions<sup>8</sup> across Europe will be 133MtCO<sub>2</sub> per annum in 2015 and 194MtCO<sub>2</sub> per annum in 2020<sup>9</sup>.

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<sup>6</sup> [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

<sup>7</sup> Subject to a number of exemptions, see [www.europarl.europa.eu](http://www.europarl.europa.eu) for full details.

<sup>8</sup> The reductions may not arise through abatement of aviation emissions, but through the purchase of allowances from the market by aircraft operators (EUAs, AAs or CDMs) to account for any additional CO<sub>2</sub> that they emit over and above the cap. Any increase in CO<sub>2</sub> emissions from aviation above the 95 per cent cap will be effectively offset by reductions in CO<sub>2</sub> emissions from other participants in the EU ETS or from Clean Development Mechanism CO<sub>2</sub> reduction projects in developing countries.

<sup>9</sup> These figures are based on the European Commission paper, *Impact Assessment of the inclusion of aviation activities in the scheme for greenhouse gas emission allowance trading within the Community*. This paper gave an estimate of emissions reductions if the cap were set at 100%. These figures have been adjusted to reflect the agreement reached in July 2008 that the emissions cap for aviation will be 95% of average 2004-06 emissions from 2013 onwards.

**2.21** The auction levels beyond 2012 are being negotiated with other EU countries as part of the Climate and Energy Package, and the Government has been pleased with the level of constructive engagement from the industry on this issue.

**2.22** The Government continues to believe that there is a case for domestic measures to operate alongside the EU ETS and the decision to retain and reform APD will contribute to the long-term aviation environmental framework. The Government will, as it does with all fiscal instruments, monitor the interaction of domestic aviation tax and the EU ETS. The European Commission (EC) has confirmed that any domestic aviation taxes that exist are national taxes and that there is no community framework in this area.

**2.23** The Government believes that inclusion of aviation in the EU ETS is very significant progress, but is not a complete solution to addressing the climate change impacts of aviation. The Government continues to press internationally for action under the United Nations Framework Convention on Climate Change (UNFCCC). The Government continues to argue that international aviation and shipping should be set meaningful targets as part of a post 2012 UNFCCC agreement to address climate change.

**2.24** In addition, the Government also continues to actively support international action at the International Civil Aviation Organisation (ICAO) and plays a strong and active role in the Group on International Aviation and Climate Change (GIACC) which is working to develop a global approach for making emissions reductions. Action at ICAO and in the UNFCCC is being supported by coordinated EU diplomatic activity, as progress in one forum is likely to increase pressure in the others.

**2.25** The Government continues to believe that international agreement is the best solution for aviation. However, progress at ICAO is slow. Therefore, until a truly global solution can be found, including aviation in the EU Emissions Trading Scheme (EU ETS) represents the best multilateral option available.

**2.26** ICAO also administers the Convention on International Civil Aviation (Chicago Convention) which was signed in 1944 and created the framework for the operation of international air services. Despite a number of revisions, the Government considers that the Convention is now in need of some modernisation, and this is particularly true in relation to the environment. The Government's position is that the Chicago Convention would benefit from some reform, in order to reflect the challenges the industry faces today, including environmental challenges.

**2.27** The UK and other likeminded States believe that the current practice of exempting aviation from taxation on fuel used for international services is anomalous and has succeeded in increasing ICAO's focus on the environment. But it has not yet been possible to reach consensus within ICAO with regard to specific economic instruments. The Government has committed to engage actively, together with European partners, to press for greater action in ICAO on aviation's environmental impacts.



# 3

## Responses on the basis of the duty

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### Introduction

**3.1** As a lead option in the consultation, the Government proposed that the basis of the duty should be an objective and uniform measure or combination of measures of an aircraft and/or an aircraft's flight. It was proposed that this should consist of both a measure that reflects the environmental impact of the aircraft, and a measure of the distance travelled on the flight in question. The lead option was for the duty to apply to all flights taking off from the UK, with the duty point being the point of take-off.

### Aircraft measure: Maximum Take-off Weight

**3.2** There were two main reasons for proposing Maximum Take-Off Weight (MTOW) as the lead option; the first being that MTOW is a standard measure of an aircraft that is recorded by all manufacturers and operators, and the second, that MTOW provides a reasonable proxy for the environmental impact of a flight.

### Other aircraft measures

**3.3** While the Government believed that MTOW provided a robust basis for the duty, it recognised that there could be a case for using a measure that is more directly related to environmental costs, in a way that is compatible with the legal restrictions on the direct or indirect taxation of the quantity of fuel used on international flights. Two alternative suggestions to MTOW were made, CO<sub>2</sub> in the landing and take-off cycle (LTO) and nitric oxide and nitrogen dioxide, together known as NO<sub>x</sub>, in the LTO. The Government's initial view, however was that the data available for these two measures were not sufficiently robust to base a tax on.

### Summary of responses: aircraft measure

#### Airline industry and airports

**3.4** The aviation industry overall was particularly keen to highlight the contribution that it makes to the UK economy. These industry respondents also highlighted the actions they have taken to minimise greenhouse gases and maximise fuel efficiency. Many highlighted a list of technical and operational measures that they have implemented to increase fuel efficiency as well as pointing to investment in conservation projects and support for sustainability initiatives. Many made the point that the actual CO<sub>2</sub> emissions of the aviation industry currently amount to around two per cent of the world's total.

**3.5** Overall, the airline industry and airports did not agree with the use of MTOW as they felt that it does not reflect environmental performance or incentivise environmental efficiency. Respondents suggested that it could even act as a disincentive to aircraft manufacturers to make lower emission aircraft, causing them to concentrate on lighter planes rather than more efficient ones. The use of straight MTOW was preferred to a banding system, and some expressed a strong preference for a function of MTOW such as the square root, as used by Eurocontrol. There was strong support for using the Operator's MTOW rather than the Manufacturer's MTOW, as this more closely reflects actual operating weight, which may be considerably less

than Manufacturer's MTOW. It was also highlighted that MTOW does not recognise the differences in emissions between jet and turboprop aircraft. Some felt that this measure unfairly discriminated against long-haul operations while others thought that smaller aircraft would be penalised by it. No respondents felt that NO<sub>x</sub> emissions in the LTO were appropriate because of the lack of robust and comprehensive data. Respondents mentioned that a forthcoming European Commission (EC) legislative proposal will deal with NO<sub>x</sub> emissions from air transport.

**3.6** Opinion was split over the use of CO<sub>2</sub> emissions in the LTO. Some suggested it might be the most accurate measure and others that the data are not robust or comprehensive enough. Some respondents preferred a tax based on emissions, either NO<sub>x</sub> or CO<sub>2</sub>, which would better focus on actual environmental impact. Ideally it was felt that this would be based on actual fuel consumed but as this would be prohibited under the Chicago Convention, some acknowledged that emissions in the LTO cycle would be the next best measure. Others argued that confining the basis to the LTO cycle would unfairly penalise short haul flights as the cycle represents a far greater proportion of the total emissions per flight.

**3.7** Some alternative measures were proposed including: using the aircraft and engine type, fuel consumption per kilometre based on average loads and distances or a charge based on the Quota Count of an aircraft engines. Others suggested actual fuel use divided by number of passenger seats, manufacturer's fuel burn per hour multiplied by actual hours flown, or fuel consumption per kilometre by aircraft type. Some suggested that reward and incentive mechanisms should be built-in for eco-efficiencies, with penalties for older, more polluting aircraft, and an element in the tax to cover noise. It was also suggested that instead of MTOW an aircraft type/variant scale could be used, or that a combination of all three of MTOW, NO<sub>x</sub> and CO<sub>2</sub> would provide an effective environmental measure. Another respondent suggested using a straight function of the CO<sub>2</sub> efficiency of an aircraft type in manufacturer's standard configuration.

## Freight and manufacturers

**3.8** Respondents from the freight industry and manufacturers were firmly against MTOW as a basis for aviation duty. They argued that aircraft rarely operate at the manufacturer's MTOW and that this is particularly true for domestic and short-range aircraft which carry and use far less fuel and therefore operate at lighter weights than comparable sized aircraft on longer sectors. They also said that MTOW fails to incentivise newer types of aircraft. There was no support for NO<sub>x</sub> emissions during LTO as a measure because of the lack of robust data. Respondents also pointed out that because NO<sub>x</sub> and CO<sub>2</sub> data can be affected by a number of external factors such as runway length, weather and engine age, these would have to be continuously re-evaluated to ensure accuracy. It was also suggested that emissions in the LTO cannot be used as a proxy to establish aircraft efficiency. There was however some support for a CO<sub>2</sub> based measure on the basis that this could be more easily explained to customers and that it would encourage the aviation industry to invest in more fuel-efficient aircraft. Alternative suggestions included basing the tax on the capacity of the aircraft and its fuel burn per passenger as well as MTOW and another respondent suggested that the measure should take account of the age of the aircraft.

## Business and general aviation

**3.9** Business and general aviation operators were not in favour of MTOW but felt it could be the 'least worst option'. They felt a straight calculation would be more transparent, but a function of MTOW would more accurately reflect the decreased ratio of maximum payload to MTOW in lighter aircraft and incentivise newer, more environmentally efficient aircraft. Some responses felt that NO<sub>x</sub> in the LTO was unsuitable because of lack of robust data and CO<sub>2</sub> in the LTO was also rejected because of difficulty in confining measurements to the LTO cycle. Alternatives included noise at take-off to incentivise newer aircraft or a tax on the empty weight component

of an aircraft. It was also highlighted that data are not necessarily available for aircraft under a certain weight.

## **Environmental Non-Governmental Organisations (NGOs), academics and individuals**

**3.10** These respondents argued that aviation receives a subsidy through the exemption from fuel tax and VAT on air tickets. A number also suggested that domestic aviation tax should be set at a relatively high rate and rise progressively year on year to compensate for inflation and for the fall in costs of air travel. Some respondents were also concerned that the tax would not reward airlines which invest in cleaner, quieter aircraft or encourage modal shift onto lower CO<sub>2</sub> forms of transport. It was further considered that domestic aviation taxation should be just one of a suite of policy instruments.

**3.11** Overall these respondents felt that MTOW, although imperfect, was a reasonable proxy for emissions although opinion was split as to whether this should be a straight calculation or banded. Arguments for MTOW were that it would encourage higher load factors and discourage executive jets with fewer passengers. However, they felt MTOW does nothing to recognise or incentivise investment into cleaner or more efficient aircraft and therefore additional components could be added to MTOW such as noise. Some responses supported the use of NO<sub>x</sub> or CO<sub>2</sub> in the LTO, while others debated the accuracy and availability of data.

## **Other bodies and individuals**

**3.12** Opinion was split in the remainder of the consultation responses about the suitability of MTOW and CO<sub>2</sub>/NO<sub>x</sub> in the LTO as a basis for the tax. Respondents suggested alternatives including an additional multiplier to be added for flights taking place in the dark to cover their greater radiative forcing impact, or a noise factor. Other efficiency measures were also suggested, such as an age factor or discounts for certain aircraft type offering improved environmental performance, another respondent suggested that the rate of fuel burn in the LTO could be used.

## **Summary of responses: distance**

**3.13** One of the key objectives behind the reform of aviation taxation is to make the tax burden better correlated to distance travelled, in order better to reflect environmental impact. Therefore, the Government's lead option at consultation was that a criterion based on distance should be used in conjunction with an aircraft measure in order to determine the basis of aviation duty.

**3.14** The consultation recognised that it would not be straightforward to use the actual distance flown by an aircraft as the basis of the duty. Each flight may deviate from the most direct route planned for a number of reasons, including airspace permissions, weather, and time spent in holding patterns. The Government therefore considered two options for integrating a representative distance measure – great circle distance (GCD) and banded distance.

## **Airline industry, airports and freight industry**

**3.15** Respondents all made very similar points, overall they recognised that some measure of distance should be applied in determining the basis of the tax. However, some were concerned that a distance measure combined with MTOW would not be appropriate as there was an element of distance already incorporated into MTOW, in that a larger aircraft is needed to fly farther. Only a very few believed that distance should be abandoned altogether as part of the basis of the tax.

**3.16** There was a great deal of concern that both a banding system or the use of GCD could create a strong incentive for passengers and freight with long-haul destinations to hub outside the UK and this could potentially increase overall emissions with a greater number of landing and take-offs, or simply displace CO<sub>2</sub> emissions from the UK to alternative hub airports. There were also suggestions that it could reduce the tax burden on short-haul flights, favouring a short-haul airline business model. Many respondents agreed that banding was a simple system but there was concern that such a system would not reflect the true environmental cost of emissions and environmental impact. A few respondents thought the banding system proposed was arbitrary and would create anomalies, with a domestic flight being charged the same as a flight from the UK to Cyprus. It was also suggested that such a system might result in the outcome that transiting through the UK would become uneconomic. It was also highlighted that a system based on capital cities could be blunt, placing all of the US and all of Russia within one band despite the great distances between their capital cities and the farthest destinations in each of these countries.<sup>1</sup>

**3.17** GCD was widely favoured as it was felt to be simple and to better reflect environmental impacts, although others were concerned that it would increase administrative burden. However, opinion was split with others suggesting that using GCD would create a disproportionate bias against longer routes.

**3.18** Alternative suggestions included using distance and the total number of seats to calculate a charge, using a banding system in conjunction with the square root of MTOW, using GCD multiplied by the square root of MTOW, or using GCD multiplied by straight MTOW and providing a 30 per cent discount for turboprops. A number of different banding systems were also proposed with different numbers of bands, including a band for domestic flights.

## Business and general aviation

**3.19** Respondents from the business and general aviation sector pointed out that due to the unscheduled nature of flights, the destination is often not known more than a few hours prior to a departure. If distance were to be applied to the business and general aviation sector, then GCD should be used and should be a small factor in calculation, reflecting the much greater efficiency of aircraft in cruise. An alternative would be to introduce a de minimis threshold, which would negate the need to know the flight length for small aircraft. In addition, as destinations can be changed en route the arrival flight length should be used rather than the departure leg.

## Environmental NGOs, academics and individuals

**3.20** Environmental respondents could see the case for banding for ease of administration and simplicity. Most accepted that whatever tax system is chosen there will always be some 'perverse' incentives. However, they were concerned that banding would provide an incentive for carriers to hub at a European destination en-route to a long-haul destination. Others disagreed that hubbing was likely to occur due to the increased costs of fuel and airport fees associated with an extra landing and take-off cycle and the extra inconvenience for passengers. Some argued that a distance model could benefit short-haul flights. It was further cited that GCD provides no incentive to improve air traffic control, as it does not take into account circling patterns. There was also a concern over using a system based on distance between capital cities as it would mean countries such as the US and Russia sit entirely in one band, despite the great distances between their capital cities and the farthest destinations in each of these countries.<sup>2</sup>

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<sup>1</sup> The ability to split a country for aviation taxation purposes is dependent on the existing ticket booking system/airport code structure.

<sup>2</sup> As above.

**3.21** Environmental respondents suggested that if banding were to be used, then a greater number of bands should be introduced. If GCD were to be used then a function of the distance (to avoid distortion through large discrepancies on long-haul routes) would be the most useful measure. Some suggested that the tax should be levied on the final destination which should be defined as the furthest point at which more than 50 per cent of the original passengers are still on board. Others believed that the Government should be encouraging travellers towards the mode of travel with the lowest CO<sub>2</sub> emissions per kilometre. Another suggested that to account for circling, it would be appropriate to employ a multiplier for flights travelling additional kilometres, e.g. one per cent over GCD.

### **Other Bodies and Individuals**

**3.22** Other respondents agreed that the use of a distance metric as part of the basis of the tax is important because as distance increases, so fuel use and related emissions increase, therefore flights which travel further should be liable to more tax. Some stated that banding was most appropriate due to clarity and ease of administration. Alternative suggestions included banding MTOW as well as distance, an approach based on a continuum with both an additional fixed distance factor and a GCD function built in, a multiplier based on square root of the GCD and combining distance with other factors such as CO<sub>2</sub> emissions, radiative forcing and time.



# 4

## Responses on freight

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### Introduction

**4.1** Under the current APD model, passengers are the basis for the charge and therefore freight only flights are not taxed. The carriage of freight by air contributes to the emissions that cause climate change and for reasons of fairness and consistency, the Government proposed that aviation duty should apply irrespective of whether aircraft are carrying freight, passengers or a mixture. In addition, the inclusion of freight within aviation duty would reduce the burden on other sectors.

**4.2** However, the Government recognised in the consultation that UK air freight plays an important role in the economy, both for the industries directly involved with air freight and for those who make use of air freight. The consultation therefore sought stakeholder views on the role of this sector within the economy and asked for detailed evidence as to the economic and environmental impact that aviation duty may have on both these industries and on the wider economy.

### Summary of consultation responses relating to impacts on freight

#### Airports

**4.3** Airports were primarily concerned about the impact that aviation duty might have on their freight operations, as freight carriers might switch to non-UK/European hubs in order to avoid paying the tax for goods in transit. They felt that while the UK is currently a major hub for freight this could easily change with the introduction of this tax since the freight sector is highly mobile and easily transferable to other destinations.

**4.4** Regional airports were particularly concerned with the potential for job losses as well as a possible modal switch from air to road, should operators decide to hub outside the UK and bring their goods in by road instead. They suggested this would have environmental consequences in terms of congestion as well as a potential increase in overall CO<sub>2</sub> emissions. Particular concerns were raised where airports are close to another EU member state, as in Northern Ireland. It was felt that freight carriers en route to Northern Ireland could easily land in the Republic of Ireland, transfer the goods to road and avoid the tax altogether.

**4.5** While some airports accepted the rationale behind the inclusion of freight within aviation duty, most felt that it should remain untaxed as is the case under APD. While some accepted that the tax would result in freight carriers maximising their load factors, a few responses suggested that this was standard practice within the industry anyway. Some airports were concerned about the distortion that the tax might impose between imports and exports, in that exporters of UK produced goods would be penalised whereby importers of non-UK produced goods would not.

## Airline industry

**4.6** Overall, airlines and airline associations were pleased by the proposal to include freight-only carriers in the tax. It was felt that this would result in a far more even spread of the tax across the industry.

## Environmental NGOs, academics and individuals

**4.7** Environmental respondents were on the whole in favour of the proposals and considered aviation duty useful in the wider Governmental aim of tackling climate change. Several groups suggested that the inclusion of freight within aviation duty might be positive for UK industry, particularly horticulture, since the prices of imported flowers and plants would increase and therefore make UK products more attractive.

**4.8** There was a general acceptance among these responses that freight-only carriers use older, noisier, less fuel efficient aircraft, and that aviation duty might incentivise them into upgrading their fleets. Some acknowledged that an element of 'just in time' air freight is necessary, such as those for medical supplies, and did not consider that there would be a move away from the UK for these type of carriers. Several respondents considered that aviation duty would create an incentive to freight carriers to maximise their load factor, and would deter them from flying empty return flights. Several environmental respondents believed that if non-time sensitive freight were switched to other types of transport such as rail and sea, it could bring environmental benefits, since CO<sub>2</sub> emissions would fall as a result of carriers using a less polluting mode of transport for the delivery of freight.

## Freight industry

**4.9** Freight carriers were concerned about the possible impacts that aviation duty might have on UK exports, and the possibility of increased use of non-UK/European hubs for freight in transit. Concerns were also raised as to a possible consequential increase in the use of road haulage in the UK, with a knock on effect of increased CO<sub>2</sub> emissions. Carriers felt that they would find it difficult to pass on the cost to customers as the industry is extremely price-sensitive, which would mean that these carriers would need to cover the cost of the tax from existing profits which they suggest are already marginal. However, some respondents accepted that some time sensitive freight carriers might be able to overcome this.

**4.10** Several carriers were further concerned that aviation duty might have an unforeseen and undesirable environmental effect, whereby transshipments in the UK resulted in a greater number of flights using smaller aircraft. Overall, there were a number of suggestions that the duty would have a disproportionate effect on a highly competitive industry with high levels of price sensitivities. They suggested that the introduction of the tax could lead to job losses in the UK freight sector and associated industries if carriers moved to European transshipment hubs.

## Oxford Economics Forecasting report

**4.11** A report was commissioned by several of the freight carriers from Oxford Economic Forecasting (OEF) entitled *The Economic Impact of the Proposed Aviation Duty on the Express Delivery Industry and UK Economy: Final Report* and published in April 2008. This report highlighted the contribution which the express freight industry makes to the UK economy, with OEF estimating that the industry contributed around £910 million to UK GDP in 2004 which they estimate has grown to £1.15 billion in 2007.<sup>1</sup> OEF also highlighted that the industry directly employed around 37,000 in 2007 and indirectly supported 84,000 UK jobs in 2007.<sup>2</sup> The report goes on to say that if aviation duty were imposed on the sector, then it could cause a fall of export volumes and lower GDP.

**4.12** OEF suggest that it is the transshipment sector which could be primarily affected by a per plane tax. For express freight, transshipment is a hub-and-spoke business model where international packages are transported via country hub airports and grouped before being shipped on to their destination. OEF believe that it is likely that the introduction of the new tax could cause integrators to switch their transshipment activities to continental hubs with a resulting loss of UK employment.<sup>3</sup>

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<sup>1</sup> Oxford Economic Forecasting, *The Economic Impact of the Proposed Aviation Duty on the Express Delivery Industry and UK Economy Final report*, 23 April 2008, p. 1.

<sup>1</sup> *ibid*, p. 1

<sup>2</sup> *ibid*, p. 2

<sup>3</sup> *The Economic Impact of the Proposed Aviation Duty on the Express Delivery Industry and UK Economy Final report*, Oxford Economics, 23 April 2008, p. 2.



# 5

## Responses on transit and transfer passengers

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### Introduction

5.1 At some airports, a significant proportion of airport passenger traffic is made up of those for whom the airport is neither a first point of departure nor final destination. Such passengers, known as “transfer” and “transit” passengers, are not chargeable passengers under APD. Transfer passengers tend to be a feature of network airlines with “hub and spoke” business models operated by full-service network airlines or alliances, as opposed to airlines operating a “point-to-point” model.

### Summary of responses: transit/transfer services

5.2 Those opposed to the inclusion of transit/ transfer passengers in the tax focused on the impact on UK economy and on regions in particular. Those supportive of the inclusion of transit/ transfer passengers in the tax focused on the fact that all flights had an environmental impact and consequently it was not possible to defend an exemption on environmental grounds.

### Airline associations

5.3 Airline associations on the whole were against the inclusion of transit/transfer passengers in aviation duty on the grounds that increasing the tax burden on passengers transiting/ transferring would reduce the competitiveness of UK airports and provide a financial incentive for passengers to choose to connect on the near continent instead. They also argued that the large network carriers whose business models are based around transfer and connecting passengers are only efficient when offering the greatest number of destinations and frequencies. These respondents argued that an aviation duty that taxed each take-off discriminated against these carriers and would have a negative impact on UK airports as UK passengers (and in particular those from the regions) could gain financially by flying to a continental hub to connect to a long-haul flight instead of transferring via Heathrow.

5.4 Airline associations were concerned that long term this would threaten not only the airports but also foreign investment in UK businesses, and particularly those located in cities served by a UK hub airport. One trade association however did not hold with this view and welcomed the inclusion of transit/ transfer passengers in the tax. They maintained that engines are at their least efficient at take-off and landing and consequently it was right to tax per take-off.

### Airlines

5.5 Responses from airlines very much reflected the business models that they operated. Network carriers that use the hub and spoke model and operate long-haul flights were opposed to the inclusion of transit/transfer in a per plane tax for the same reasons as the trade associations. In addition, they argued that by providing UK passengers with an incentive to transit on the near continent there would be little environmental benefit to be gained but could potentially cause significant economic damage to the UK. They further argued that long-haul passengers, who would be the ones most affected by this, are very price sensitive and even small price increases could result in behavioural changes. In addition, those operating triangular or double-drop routes within the UK were also strongly against including transit/transfer

passengers in the tax. They argued that these flights were only economically viable because of the inclusion of an additional and normally much shorter leg of the journey. They suggested that a per plane tax that taxed all three take-offs would have major impacts on the economic viability of these routes and would be unfair.

**5.6** Airlines with few transfer/transit passengers, were in favour of including these in the scope of the tax. They argued that flights with large numbers of transit/ transfer passengers currently pay significantly less tax than a similar flight to the same destination with fewer transit/ transfer passengers despite having the same environmental impact. They also argued that a transit/transfer exemption is a subsidy to those airlines and that under a per plane tax those with a greater proportion of transit/transfer passengers would pay a greater share of a per plane tax better reflecting the impact they have on their environment.

**5.7** Those who supported the inclusion of transit/transfer services within the tax argued that an exemption would be difficult to administer and impossible to justify on environmental grounds. Some respondents suggested that a percentage discount from the tax calculated on the number of APD exempt passengers previously carried by an airline could be an alternative.

## **Airports**

**5.8** Airports were overwhelmingly in favour of excluding transit/ transfer passengers from a per plane tax. They provided a similar rationale as that of airlines, but emphasised the potential impact on regional connectivity. They argued that in many cases regional airports are unable to secure access to a continental hub so passengers have no alternative but to hub within the UK. For triangular or double drop routes within the UK this could result in the tax being applied three times to a passenger's journey.

## **Environmental NGOs, academics and individuals**

**5.9** In contrast environmental respondents were in favour of including transit/transfer passengers in the tax. They argued that transit/transfer passengers bring little economic benefit to the UK and held the view that if such passengers were encouraged to hub on the near continent rather than at UK airports then this could ease congestion at the larger UK hubs. This could lead to more slots being freed for regional UK routes, although one respondent suggested that a rebate of some description be offered to transfer passengers arriving or departing to a country with a similar tax to avoid double taxation. On the whole they questioned the economic loss that a shift to continental hubs would have on the UK. These respondents also argued that if the tax resulted in increased cost to transit/ transfer fares then passengers may well shift to direct flights or domestic rail travel with attendant environmental benefits.

## **Other bodies and individuals**

**5.10** A number of these respondents opposed the inclusion of transit/transfer passengers in the tax. Primarily these respondents were concerned that this could result in negative economic impact on the UK and UK airports.

## **Summary of responses: impacts on regions**

**5.11** A great many responses were received from regional stakeholders and highlighted a number of issues.

## Devolved Administrations

### Scotland

**5.12** Scottish respondents were overwhelmingly concerned with retaining the Highlands and Islands exemption, which currently exists in APD. They were also concerned that the proposal might have the potential to undermine longer-haul direct flight opportunities from Scotland and disadvantage transiting and transfer passengers within the UK. In addition, there was a concern that airlines might not open new routes or increase frequencies on existing routes.

### Wales

**5.13** Welsh respondents were keen to highlight the Public Service Obligation flight from Cardiff to Anglesey and to request an exemption for Public Service Obligation flights. They also raised the issue of the ongoing viability of the British Airways maintenance facility in Cardiff which they argue has brought a number of jobs to the area and benefits the Welsh economy. They argued that if maintenance flights were taxed under aviation duty, then aircraft operators might go to facilities on the continent for maintenance.

### Northern Ireland

**5.14** Northern Irish respondents highlighted the competitive risks associated with sharing a land border with another EU member state and were concerned that both freight and passengers might choose to use Dublin airport instead of Northern Irish airports. They suggested that it could make Northern Ireland a less attractive tourist destination and could make both imports and exports more expensive. They pointed out that Northern Irish passengers have few alternatives but to fly and were also concerned that the duty could increase road usage between Northern Ireland and the Republic of Ireland.

## Other regional stakeholders

**5.15** Regional stakeholders including regional development agencies, think tanks, regional airports, regional airlines and MPs responded to the consultation and these were received from the North West, North East and South West. No consultation responses were received from other regions regarding connectivity or peripherality.

### South-West

**5.16** South West respondents were concerned with an exemption for the Isles of Scilly for which air travel is the only means to and from the Isles for five months of the year. They were also concerned with the continuing viability of South Western routes given they tend to rely on transit/transfer passengers who could potentially be subject to double-taxation. Responses highlighted that air links can be key for economic prosperity and development, particularly in the far South West where it was felt that surface travel options are relatively poor.

### North-West

**5.17** North West respondents were concerned with the implications of aviation duty on the freight industry and any potential knock-on effects that could have on the continuing viability of regional airports which provide freight facilities. They also highlighted that aviation in the North West is particularly price sensitive.

**5.18** These responses also highlighted that air connectivity is vital to businesses operating internationally and also to attract inbound tourism, business connections and investment. They suggested that transit/transfer passengers would effectively be subject to double taxation and they were also concerned that aviation duty could undermine long-haul development from regional airports.

### **North East**

**5.19** North East respondents were concerned that the region already suffers from poor connectivity and believed that the doubling of APD in February 2007 had an adverse effect upon airports in the region, reducing the number of passengers and routes available. Routes from the North East tend to have lower load factors and there was some concern that the viability of these routes could be threatened by aviation duty. It was highlighted that maintaining effective transport links is vital for the continued success of the regions.

# 6

## Responses on business and general aviation

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### Introduction

**6.1** Business and general aviation is a catch-all term used by the aviation industry to cover non-commercial civil aviation. This term can include everything from hang gliders and helicopters to large jets; however, for the purposes of the consultation, only powered fixed wing aircraft and helicopters were considered.

**6.2** Currently, APD is only charged on aircraft over ten tonnes in weight and equipped to carry over 20 passengers, and in practice applies only to large commercial aircraft using licensed airfields. Aviation duty, being a per plane tax, widens the scope of the taxpayer base to include all aircraft irrespective of weight or seating capacity. However, the Government recognises that there are a large number of aircraft in the UK that are non commercial or run by small local operators and that some of these smaller aircraft are currently subject to fuel duty.

**6.3** Including all business and general aviation in the scope of aviation duty would also result in a significantly larger taxpayer base in the region of 12,000 operators and a consequential increase in the administrative burden to the industry and to the Government, for little return to the taxpayer or environment. The Government considered options to best address these issues in proportion to the environmental impact of the sector. The Government proposed applying a de minimis limit of 5.7 tonnes, below which aircraft would not be subject to aviation duty, but would be subject to fuel duty instead. Helicopters irrespective of weight would be excluded from aviation duty and would be subject to fuel duty.

### Summary of responses: business and general aviation

**6.4** Responses to this option were broadly supportive of a de minimis option but raised concerns about the rate at which the duty would be charged at, and the appropriate level of the de minimis threshold.

### Business and general aviation

**6.5** Business and general aviation responses were varied, reflecting the broad and diverse nature of this sector, although overall they shared the view that their sector should not be included within the tax. They argued that the revenue and environmental impact their sector accounts for is very small and a tax regime that incorporated them would be disproportionately complex to design and administer. If the sector were to be taxed, a de minimis limit with those below subject to fuel duty was preferred. Respondents were worried about the duty rate that would be levied on fuel and the impact this would have on an industry that included the hobbyist at one end of the spectrum and the corporate business jet at the other.

**6.6** Business and general aviation respondents argued that any increase in the duty on fuel and in particular on aviation turbine fuel (Avtur) which is currently fully rebated, would have a negative impact on the industry. Diesel engines (which use Avtur) are being developed for small aircraft, which they argued should be encouraged as such engines are environmentally friendlier than the petrol (Avgas) counterparts. These diesel engines are often expensive to manufacture and install and imposing duty on the fuel used could remove any advantages to having diesel

engines and could disincentivise their use. Respondents also argued that imposing duty on fuel could lead to aviation training establishments in the UK relocating to Europe.

**6.7** Comments on the suggested de minimis limit of 5.7 tonnes included raising this to eight tonnes; introducing a lower absolute de minimis of two tonnes below which aircraft would not be subject to either aviation duty or fuel duty; or combining the 5.7 tonnes with a criteria based on seating capacity.

## Helicopters

**6.8** Responses were received on helicopters from both the wider business and general aviation sector, as well as from the helicopter community. Fuel consumption in Avtur helicopters is considerably higher than for Avgas helicopters, so charging duty on Avtur could have potentially significant consequences. In particular, some respondents were concerned that helicopters which transport staff and equipment to the North Sea oil rigs might relocate their bases to Norway or the Netherlands. However, there were also suggestions that these North Sea operations should be included in aviation duty.

**6.9** Business and general aviation were keen to highlight the differences in the allocation of free allowances for the EU Emissions Trading Scheme (ETS), which the sector is likely to receive. They argued that this amounts to a different level of auctioning to the rest of the industry. Some business and general aviation operators suggested that they might have to purchase 100 per cent of their allowances in the first year of operation 2012, when the actual rate for commercial operations will be 15 per cent.

## Airline industry

**6.10** The airline industry supported the broad objective of widening the tax base. Others favoured the inclusion of business and general aviation sector in aviation duty on the grounds that aircraft in that sector were generally less fuel efficient, making them greater relative contributors to greenhouse gas emissions per passenger and mile basis than commercial airlines. They agreed, however, that for simplicity a de minimis limit would be appropriate.

## Environmental NGOs, academics and individuals

**6.11** Environmental respondents welcomed the inclusion of business and general aviation into the tax regime, and suggested that duty rates of fuel were currently too low. Further suggestions included the imposition of duty on fuel used on all domestic flights, irrespective of the size of the aircraft, and a “showroom tax” to be applied to all new aircraft below 5.7 tonnes.

## Other bodies and individuals

**6.12** On the whole these respondents supported the principle of including business and general aviation in a tax regime and recognised that it was acceptable to do so in a way that minimised regulatory burdens on smaller businesses. Issues voiced here were around winners (those who would pay neither aviation duty nor fuel duty) and losers (those who would pay both) and the need to ensure fairness and parity of treatment wherever possible. This included ensuring that aircraft falling just above or below the de minimis limit but providing the same or similar services were not treated more favourably for tax purposes under one regime than under the other.

# 7

## Responses on exemptions

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### Introduction

**7.1** The Government's broad aim was that aviation duty should ensure that aviation makes a greater contribution to reflecting its environmental impacts, and therefore all aircraft should be included. However, in proposing the design of the duty, the Government recognised that there might be certain legal, social or economic grounds for offering specific exemptions.

**7.2** The consultation document proposed that as a starting point, only those exemptions which are legally required, for foreign diplomatic and foreign military flights, would be made. However, the consultation document noted a number of exemptions which had been proposed by stakeholders during informal consultation and made explicit that robust justification would need to be provided for any of these types of flights, or any others, to be exempt from the tax.

### Summary of responses: exemptions

#### Airline industry

**7.3** Airlines and airline associations were varied in their responses on exemptions. Some were of the opinion that training and maintenance flights are part of business as usual operations, and because they contributed to climate change they should not be exempt from aviation duty. Other airlines suggested that only flights which generate revenue for airlines should be charged and therefore all non-revenue generating flights should be exempt. Many accepted the socio-economic need to exempt public service flights, as well as flights of a humanitarian nature, such as those provided by air ambulances.

**7.4** Several low cost airlines felt that exemptions should only apply where there is a legal obligation to do so. One airline suggested widening the scope for exemption to include flights to other remote areas of the UK. However, they did not see the need to exempt positioning flights or maintenance flights.

**7.5** Some airline associations, as well as some special interest aviation groups, believed that positioning flights should be exempt, particularly when it came to the delivery of mail. Many groups in this sector were also happy with the rationale behind exempting military flights. Proposals were also put forward for exemptions to the Isles of Scilly, Isle of Man and the Highlands and Islands.

#### Airports

**7.6** Airport respondents were largely in agreement with the Government's proposed exemptions. However some regional airports felt that the exemption proposed by the Government for Highland and Island flights ought to be widened to include other remote areas of the UK, and that some dispensation might be given to new routes, as they often find themselves in an unprofitable situation, before they can become established.

**7.7** Most respondents argued that positioning flights should be exempt as should training and maintenance, as well as those flights that happen to get diverted due to emergencies and bad weather. There was also a request for official hijack airports to be exempt from the duty as all of these diverted flights were Government-directed. Only one respondent felt that the Highlands and Islands should not be included because they already receive Government funding.

### **Environmental NGOs, academics and individuals**

**7.8** Environmental respondents in general were opposed to exemptions as they considered all aircraft movements regardless of their purpose, as polluting, and therefore contribute to climate change. Most responses felt that flights for training and maintenance purposes should not be excluded from the tax, since such flights were part of business as usual operations. However, several environmental respondents agreed on exemptions for public service flights and one group suggested a possible reduction in aviation duty for those re-positioning flights affected by bad weather or technical faults. It was considered that aerial display flights should not be exempt from the tax.

### **Other bodies and individuals**

**7.9** Other individual responses as well as those from other special interest aviation groups included a variety of views with regards to the proposed exemptions. One suggested that a rebate for peripheral areas such as the Highlands and Islands would be better than an exemption. Other exemptions proposed by respondents included pilgrimage flights and heritage flights.

# 8

## Responses on administration of the duty

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### Introduction

**8.1** The Government's starting point for the consultation was that the new aviation duty should apply to all aircraft and therefore have a wider scope than the current APD. The Government was aware in proposing options, that a number of potential options for organising the collection of the duty exist and that some would be likely to impose higher burdens – on business and Her Majesty's Revenue and Customs (HMRC) – than others. The consultation considered two possible alternatives for the collection of the duty – for aircraft operators to pay the duty directly, or for airports to collect and account for the duty.

### Summary of responses: administration

**8.2** Responses were received from airlines, airline associations and airports and were almost unanimously opposed to airports collecting the tax. Although having airports collect and account for the tax would reduce the number of taxpayers which interact with HMRC and consequently reduce the administrative burden on the industry, further work on this option revealed that many of the burdens would merely be redistributed and that this option could create significant duplication in both terms of processes and record keeping for airlines and airports.

**8.3** Concerns were raised over the complexity, collection, administration and transparency of the duty, especially with regard to the ease with which operators could pass on the tax to passengers and other customers. There were also a number of questions as to how this would fit with the amendments to the Aviation Third Package<sup>1</sup> which will require airlines to clearly describe to customers the total ticket price to be paid and specify the taxes, airport charges and other charges, surcharges or fees (such as security or fuel).

### Airports

**8.4** Airports saw their involvement as the unnecessary introduction of an additional layer in the collection process. They argued that a relationship currently exists between airlines and HMRC and saw no value to being added into the equation. They were concerned about the lack of clarity as to where the final liability of the tax rested and disagreed with the assertion in the consultation document that there were potential cash flow benefits for them. They also pointed out that the amount of duty they would be handling could exceed the revenue usually generated by the airport and airport collection could pose a significant cash flow risk. There would be implementation costs, as although airports collected data on which they based their fees, this was not done consistently throughout the industry, and potentially costly system changes would be required to accommodate the tax.

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<sup>1</sup> The European Commission published its proposals for the reform of the third aviation package on 18 July 2006. The proposal consolidates and updates three existing regulations concerning the liberalisation of air transport in the European Union. These are known collectively as the 'third aviation package' and date from 1992.

## Airline industry

**8.5** Airlines and airline associations also opposed the involvement of airports in the collection cycle and were concerned that airports would seek to levy a fee for their services. If airports were to collect the tax they felt that aircraft operators would need to disaggregate their flight information from their systems in order to make separate declarations to the individual airports from which they fly. They argued that far from reducing administrative burdens, using airports as collectors of the tax would result in both airports and airlines keeping the same records in order for one party to assure that the declarations made by the other were correct. Although airlines saw no role for airports in the tax collection process for commercial airlines, they saw a possible role for them in administering the tax for the business and general aviation sector and suggested a hybrid option where commercial airlines would deal directly with HMRC, while smaller airlines and business and general aviation would be coordinated by airports.

## Business and general aviation

**8.6** Business and general aviation were concerned that this option would have a disproportionate impact on the smaller airfields and estimated that between 25 and 100 times more administrative work would be required by small airfields than their large counterparts per unit of aircraft movement. Respondents also felt that it would be simpler to have a non-movement based scheme for aircraft between 5.7 tonnes and 20 tonnes, similar to vehicle excise duty for motor vehicles. Respondents felt that aviation duty was incompatible with the European Charter for Small Enterprises through which Member States have committed to develop a Small and Medium Enterprise-friendly business environment.

## Tour operators

**8.7** Tour operators highlighted timing issues, as they price their brochures over a year ahead. They therefore asked for a minimum of one year's notice to ensure their brochures reflected any price changes.

## Other bodies and individuals

**8.8** A number of other bodies also responded on this point. Points made were along the same lines as those made by the airlines and airports but no strong preference was expressed for making airports the collectors of the tax.

# A

## Consultation questions

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**A.1** The following is a summary of all the questions in the Consultation Document published on 31 January 2008.<sup>1</sup>

### **The basis of the duty: aircraft measure**

**A.2** The Government's preferred option for an aircraft measure was Maximum Take-Off Weight, however two other options were also considered as part of the consultation. The Government welcomed responses to the following questions:

#### **Maximum Take-off Weight:**

- 1 What would be the simplest and most transparent method of using maximum take-off weight: banding or straight calculation of either the constant MTOW or some function of MTOW?
- 2 Are there any possible distortions/problems caused by using MTOW?
- 3 What do you think the environmental benefits of using MTOW would be?
- 4 How well do you think that using MTOW as the basis for the duty helps the Government achieve its objectives?

**A.3** NO<sub>x</sub> emissions in the landing and take-off cycle:

- 5 What would be the simplest method of using NO<sub>x</sub> emissions: banding or straight calculation of either the constant NO<sub>x</sub> emissions or some function of NO<sub>x</sub> emissions?
- 6 Are there any possible distortions/problems caused by using NO<sub>x</sub> emissions in the landing and take-off cycle as the basis for the duty?
- 7 What would be the best source of robust data on NO<sub>x</sub> emissions in the landing and take-off cycle?

**A.4** CO<sub>2</sub> emissions in the landing and take-off cycle:

- 8 What would be the simplest method of using CO<sub>2</sub> emissions in the landing and take-off cycle: banding or straight calculation of either the constant CO<sub>2</sub> emissions or some function of CO<sub>2</sub> emissions?
- 9 Are there any possible distortions/problems caused by using CO<sub>2</sub> emissions in the landing and take-off cycle as the basis for the duty?
- 10 What would be the best source of robust data on CO<sub>2</sub> emissions in the landing and take-off cycle?

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<sup>1</sup> The original consultation document can be found at [www.treasury.gov.uk](http://www.treasury.gov.uk)

## A.5 Other basis questions:

- 11 Is there another aircraft measure that would be better for aviation duty than the three options described above?
- 12 The Government would also welcome views on the extent to which the new aviation duty could play a role in covering other environmental costs as well as incentivise airlines to use quieter aircraft.

**A.6** The Government recommended that the distance factor used in the calculation of aviation duty should be determined by placing destinations into three geographical bands. The Government welcomed views on this recommendation, and, in particular was interested in answers to the questions below:

- 13 Do you agree that banding is the most appropriate measure?
- 14 Do you agree with the banding system that the Government has suggested?
- 15 How well does a banded approach to distance achieve environmental objectives, given the need to avoid a perverse incentive to fly via intermediate hubs?
- 16 What are the possible distortions/problems caused by using distance?
- 17 What would the advantages/disadvantages of using GCD be?
- 18 How would you combine distance with other criteria?
- 19 Are there other alternatives for including a distance factor, not already covered?

## Business and general aviation

**A.7** The Government welcomed views on the proposal that a 5.7 tonnes de minimis limit for aviation duty is applied, with all fixed wing aircraft below this level subject to fuel duty. In particular, responses were welcomed on the questions below:

- 20 Do you agree that a de minimis limit based on the weight of an aircraft a suitable measure?
- 21 Is 5.7 tonnes a suitable level at which to set a de minimis limit?
- 22 Is there an alternative measure that you feel is more appropriate?
- 23 Can you suggest an alternative way in which to ensure that aviation is captured either by aviation duty or fuel duty while minimising administrative burdens and complying with international law?
- 24 Do you agree that all helicopters should be placed within the fuel duty regime rather than the aviation duty regime?

## Exemptions

**A.8** The Government welcomed responses on the issue of potential exemptions. In particular, there was interest in answers to the questions set out below:

- 25 Do you think that there is a strong case for any of the exemptions listed above?
- 26 Are there any other categories of flight for which there is a strong case for exemption? If so, how would those exemptions be defined and enforced?

- 27 Would there be a strong environmental case against any of the possible exemptions?

## Freight

**A.9** The Government's intention was that aviation duty would apply to aircraft carrying freight as well as those carrying passengers. Although decisions on rates were not made at the time of consultation, in considering the impact, it was envisaged that the duty levied per flight will be of a similar magnitude to the amount of APD paid on a similarly sized aircraft. However, responses on the following questions were welcomed:

- 28 What economic impacts do you think there will be? You might wish to consider the Impact Assessment of freight in Annex B.
- 29 What would be the economic impacts on freight-only flights?
- 30 How might freight operators pass the costs through to consumers? How sensitive have consumers been in the past to a change in price?
- 31 What would be the environmental impacts of applying aviation duty to freight?
- 32 What would be the impact on freight hubs and modal transfers of goods from these hubs?
- 33 Do you have any other comments about the application of aviation duty to freight?

## Transit/transfer passengers

**A.10** The Government was minded that aviation duty, as a per plane duty, should apply irrespective of the passengers carried. However, responses on the following questions were welcomed, and carefully considered:

- 34 What evidence can you provide about the impact of moving to aviation duty on the provision of transfer services?
- 35 What are the economic and environmental implications of these impacts?
- 36 How might airlines change their business model in response to this design of the duty?
- 37 How might passenger behaviour be affected? How sensitive have consumers been in the past to a change in price?
- 38 What, if any, specific routes would be affected?

## Administration of per plane duty

**A.11** The Government welcomed views on the administrative options that were set out, and in particular was interested in responses to the questions below:

**A.12** Option a: aircraft operators to collect and account for aviation duty:

- 39 Would having all aircraft operators registering to pay the duty be an appropriate and workable way of administering the duty?
- 40 Do aircraft operators have the means to report the appropriate information on the number of flights taken and any relevant information on the duty basis to HMRC? Would any of the measures mentioned under the duty section cause problems for aircraft operators?

- 41 What reporting requirements do aircraft operators have to airports, the CAA and other bodies? How are these carried out i.e. monthly, annually, per flight?
- 42 Do the estimates in the Impact Assessment for the administration burden reflect your expected costs?
- 43 What problems might arise from having aircraft operators as the registered tax payer?

**A.13** Option b: licensed airports to collect and account for the duty. When answering these questions the Government asked that respondents consider how collecting the duty would fit in with current fee structures, how other fees are collected, how debt management currently works at airports and possible distortions that could be caused by this method.

- 44 Would the alternative of using airports to collect the duty be an appropriate and workable arrangement?
  - For the users of licensed airports?
  - For licensed airports themselves?
- 45 Do licensed airports have the means to collect and report the appropriate information? Would any of the measures suggested for the duty basis cause issues for these airports in collecting the duty?
- 46 To what extent could general aviation and business aviation traffic move to non-licensed airports?
- 47 Please refer to the Impact Assessment; does our assessment of the administration burdens for airports collecting the duty reflect your knowledge of how much this might cost? If not please let us know where it differs.
- 48 Any further comments on this issue?
- 49 Are there any comments raised on the issue of the impact on unlicensed airfields?

# B

## Consultation respondents

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ABTA-The Travel Association	British Business and General Aviation Association (BBGA)
Africa Europe Faith Justice Network	British Helicopter Advisory Board (BHAB)
Airbus	British American Business
Air Charter Travel	British International Freight Association (BIFA)
Aircraft Owners and Pilots Association	British International Helicopters
Air France	Campaign for Better Transport
Air Medical Ltd	Cargo Airline Association
Airport Operators Association	Cargolux Airlines International
Air Southwest	Carmichael, Alistair MP
Air Transport Association of America	Cathay Pacific Airways
Air Transport Users Council	Chartered Institute of Taxation
American Airlines	Chartered Institution of Logistics and Transport
Association of Asia Pacific Airlines	CHC Scotia Ltd
Association of Chief Police Officers	City of Derry Airport
Association of Independent Tour Operators	Civil Aviation Authority (CAA)
Association of International Courier and Express Services	Comhairle Nan Eileen Siar Local Authority
Atlas Air Worldwide Holdings	Confederation of British Industry
Australian Government	Confederation of British Industry – Northern Ireland
Aviation Environmental Federation	Continental Airlines
BAA	Cornwall and Isles of Scilly Economic Forum
Bamford, J.	Cornwall Chamber of Commerce and Industry
Belfast City Airport	Cornwall County Council
Belfast International Airport	Council of the Isles of Scilly
Birmingham City Council	CPRE Aviation Advisory Group
Blue Skies	Czech Airlines
BMI	Davis, H.
Board of Airline Representatives in the UK (BAR-UK)	Department for Culture, Media and Sport
Bombardier Aerospace	Department for Regional Development – Northern Ireland
Bristol International Airport	DHL
British Air Transport Association (BATA)	Diocese of Hexham and Newcastle
British Airline Pilots Association	Eastern Airways
British Airways	easyJet

Embraer  
 Emirates Airline and Group  
 Environmental Protection UK  
 Etihad  
 European Business Aviation Association (EBAA)  
 European Low Fares Airline Association (ELFAA)  
 European Regions Airlines Association (ERA)  
 Federation of Tour Operators (FTO)  
 FedEx  
 Fingerle, G.  
 Flybe  
 Flying Matters  
 Freight Transport Association (FTA)  
 Friends of the Earth  
 General Aviation Alliance  
 General Aviation Awareness Council  
 General Consumer Council for Northern Ireland  
 George, Andrew - MP  
 GMB  
 Government Office for the North West  
 Helicopter Club of Great Britain  
 Highland Airways  
 Highlands and Islands Airports  
 Highlands and Islands Enterprises  
 Highlands and Islands Regional Transport Partnership (HITRANS)  
 International Air Transport Association (IATA)  
 Iberia Airlines  
 Infratil Airports  
 Institute of Directors  
 Isles of Scilly Skybus  
 Jet2.com  
 Latin American Air Transport Association  
 Leicester/O'Dea  
 Liberal Democrats  
 Light Aircraft Association (LAA)  
 London Chamber of Commerce and Industry  
 London Luton Airport Consultative Committee  
 Lucking, T.  
 Luton and District Association for the Control of Aircraft Noise (LADACAN)  
 MacNeil, Angus - MP  
 Manchester Airports Group (MAG)  
 Manx2.com  
 Monaghan, S.  
 Morocco, Government of  
 Motorsport Vision Ltd  
 National Policing Improvement Agency  
 NetJets Europe  
 Newcastle International Airport  
 Newquay Cornwall Airport  
 North East Chamber of Commerce  
 Northwest Regional Development Agency  
 Norton, Simon  
 Oil and Gas UK  
 Omega  
 Orkney Islands Council  
 PD Ports  
 Peel Airports Group  
 Plymouth City Airport  
 Plymouth City Council  
 Postal Air Network  
 Qantas  
 Qserve  
 Reddaway, S.  
 Rees, H.  
 Rolls Royce  
 Royal Mail  
 Ryanair  
 Scottish Council for Development and Industry  
 Scottish Executive  
 Scottish Passenger Association  
 Singapore Airlines  
 Society of British Aerospace Companies (SBAC)  
 Society of Our Lady of Lourdes  
 South West Chamber of Commerce  
 South West of England Regional Development Agency  
 Stop Stansted Expansion  
 States of Guernsey  
 Strategic Aviation Special Interest Group (SASIG)

Sussex Police Air Operations Unit	United States Government
The Mersey Partnership	UPS
The Northern Ireland Assembly Committee for Regional Development	Veritair Ltd
The Northern Way	Virgin Atlantic
Thomas Cook Airlines	VLM Airlines
TNT	Wayt, B.
Tourism Alliance	Wells, B.
Tourism Society Scotland	Welsh Assembly
Transport Group of Plymouth Chamber of Commerce	West London Friends of the Earth
TUI Travel	Wolverhampton World Poverty Action
Tyndall Centre for Climate Change Research	World Development Movement
Unison	World Wildlife Fund-UK (WWF)
Unite	XL Airways
United Airlines	Zoom Airlines

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