



ABTA's response to the Scottish Government Consultation one: Policy for an overall 50% reduction in Air Departure Tax by the end of the current session of the Scottish Parliament

ABTA – The Travel Association - was founded in 1950 and is the largest travel trade association in the UK, with around 1,200 members consisting of 4,500 retail outlets and offices. In Scotland, ABTA has 42 Members and 284 outlets and offices ranging from small, specialist tour operators and independent travel agencies specialising in business and leisure travel, through to publicly listed companies and household names, from call centres to internet booking services to high street shops. ABTA's focus is ensuring that Members can operate their businesses in a sustainable and successful manner, enabling their customers to travel with confidence.

The success of ABTA Members' businesses is directly reliant on the UK's aviation infrastructure; many of ABTA's larger Members are themselves part of groups that own airlines. Annually, ABTA Members' turnover is in excess of £37 billion. The business of our Members is the provision of quality, efficient, and competitively priced passenger travel.

Tourism (inbound, outbound and domestic) is worth £5.8 billion a year to the Scottish economy, supporting 264,000 jobs – around 10% of all employment. An estimated £1.7 billion from the £5.8 billion is derived from local people travelling outbound (made up of what constituents spend before they travel).

Introduction

ABTA believes that high levels of Air Passenger Duty (APD) continue to inhibit the contribution of the travel and tourism sector to growth and employment, and are damaging the position of the UK as a hub for global air travel. This impact is particularly felt in Scotland, which is very reliant on air transport links and excellent global connectivity.

ABTA jointly commissioned a new report on Scotland's air connectivity with Airlines UK, which found that Scotland had the highest air passenger tax when compared to 10 similar sized countries, only two of which levied APD and at a much lower rate than Scotland. The report also showed that Scotland could boost its air connectivity, particularly direct long-haul connectivity, where it is seriously lagging in terms of the destinations served, should it adopt similar taxation regimes in the 10 countries assessed for the report.¹

ABTA therefore welcomes the Scottish Government's policy plans for an overall 50% reduction in Air Departure Tax (ADT) by the end of the current parliamentary session. ABTA has continued to call for a reduction in tax on both short-haul and long-haul flights, as this would enhance Scotland's air connectivity and global economic competitiveness, encouraging the establishment of new routes, and boosting business and leisure travel. However, ABTA understands that the Scottish Government is

¹ Reaching Out to the World – How Scotland's Aviation Connectivity Compares, Sept 2017

mindful to reduce tax only on long-haul flights, freezing the rate for short-haul flights to better manage the estimated rise in short-haul traffic by 2020 for environmental purposes.

ABTA recognises and is mindful of the environmental implications of reducing ADT on short-haul flights. However, we would urge the Scottish Government, should it decide to freeze the rate on short-haul flights, to progress with a 50% reduction as soon as possible, given their economic value, and benefit to the Scottish economy of an increase in the volume of short-haul traffic. According to Transport Scotland's ADT Emissions Impact Assessment published in June 2017, there were more than 12 million return journeys from Scottish airports in 2015, accounting for 94.7% of all flights from Scotland. A 50% reduction would see the number of return short-haul journeys increase by 9.4%².

ABTA further welcomes the Government's wish to continue working with Scotland's airports fairly and equitably to ensure that the new competitive spirit amongst the airports is maximised and focussed for the benefit of the airlines and Scotland and, most importantly, for the consumer.

Consultation one questions

1. Do you support the Scottish Government's policy plan to reduce the overall burden of ADT by 50% by the end of the current session of the Scottish Parliament? Please answer 'Yes' or 'No'.

Yes.

2. Please explain your answer to question 1.

A reduction in APD would result in additional demand and encourage airlines and tour operators to introduce new services and routes from Scottish airports, boosting business connectivity as well as increasing the mix of outbound, inbound and domestic tourism. Consumers will also benefit from a reduction in the cost of holidays.

The UK has one of the highest rates of air travel tax in the world³, hindering global competitiveness and families' ability to go on holidays both in the UK and overseas, due to unaffordable costs. Given the uncertainties created by Brexit, the policy for a 50% reduction of the overall burden of ADT would send the message that Scotland is open for business, helping to secure the overall post-Brexit vision to improve global competitiveness, and make Scotland a place people want visit and invest in. A report commissioned in 2015 by Edinburgh Airport found that the reduction of APD by 50% could add £1 billion to the Scottish economy by 2020, as well as creating nearly 4,000 jobs⁴. The report builds on another research by PwC published in 2015, *The Economic Impact of Air Passenger Duty*⁵, which showed that across the UK, APD reform could boost UK GDP by 0.5% in the first year, with continuing positive benefits, the economy could be 1.7% larger by 2020 than would be the case if APD were to remain unchanged. The report goes on to state that 61,000 jobs could be created. The UK is also one of the few European countries to continue to levy tax on air passengers, as many European competitors have abolished air passenger duties, having seen the detrimental impact they have on global competitiveness and passenger numbers, both for inbound and outbound visitors.

The policy plan is compatible with the Scottish Government's objective, as outlined in Scotland's Economic Strategy, to increase business competitiveness across Scotland. It will help businesses to

2 Transport Scotland, Estimate of the Impact on Emissions of a Reduction in Air Departure Tax in Scotland, p.2 and 5 (June 2017)

³ World Economic Forum - The Travel and Tourism Competitiveness Report 2017, p.334

⁴ Edinburgh Airport, The impact of reducing APD on Scotland's airports (March 2015)

⁵ The Economic Impact of Air Passenger Duty - Analytical Update (May 2015)

develop and take advantages of new commercial opportunities both in Scotland and overseas, while boosting jobs and economic growth in Scotland. Finally, the policy plan helps to deliver the Scottish Government's aim, as set out in its Programme for Scotland 2016-17, to design a tax that better fits the needs of Scotland's economy and best support the objective to boost Scotland's international connectivity. Airlines have indeed assured that more aircraft would be based in Scotland as a result of a reduction in ADT.

3. If you answered 'Yes' to question 1, please provide any suggestions you may have on the most effective way, in your view, in which a 50% reduction in the overall ADT burden should be applied across tax bands and tax rate amounts in order to achieve the Scottish Government's overall connectivity and sustainable growth objectives. For example, should: (a) all of the ADT reduction only be applied to short-haul flights; (b) all of the ADT reduction only be applied to long-haul flights; (c) ADT be reduced equally by 50% across all flight types; (d) some other differential combination be applied?

Proposed response

ABTA has consistently called for a 50% reduction to be applied across both short-haul and long-haul flights – to be implemented at the same time to maximise the impact from reduction. Applying the 50% reduction in a piecemeal fashion over a number of years, i.e., first to long-haul flights then short-haul flights, would be less likely to boost connectivity.

4. Please provide any other comments you have on the policy plan.

ABTA is calling for there to be a minimum of 12 months' notice for any future changes, beyond implementation, to allow travel businesses (airlines and tour operators) – who need at least 18 months in advance – to plan their schedules and to make necessary operational changes, such as to booking systems. It would also allow tour operators to amend marketing materials with accurate prices, including the most up to date government taxes.

There are cases of double taxation, which are not to a passenger's advantage. Under the APD rules, double taxation typically results from a passenger taking a domestic flight from UK airport A to UK airport B then taking an international flight from UK airport B on a separate unconnected ticket. The tickets would have been separately issued as they are different types of airline e.g. no-frills followed by a scheduled airline or charter airline which have completely different unconnected ticketing systems; or it could be on two scheduled airlines that do not have an interline agreement. The UK Government has been willing to consider any suggestions put forward to avoid double taxation but, so far, no resolution has been found when a passenger is not flying on a through ticket.

At certain times of the year, a flight might be operated from a Scottish airport to a UK airport and then to an international destination (a 'double drop'), for example, Glasgow-Manchester-Toronto. Some passengers would join the flight in Glasgow and others in Manchester, yet all are flying on the same aircraft with the same flight number to the same destination. Airlines would want to avoid a situation where the airline had to pay for the final number of passengers departing the UK to the Scottish Government and also paying again to the UK. They should only pay for those passengers uplifted in Scotland to the Scottish government and those uplifted in another UK airport to the UK government. Double counting must be avoided.

Further information

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