ABTA response to the Finance and Constitution Committee of the Scottish Parliament

Call for Evidence: Air Departure Tax (Scotland) Bill

ABTA – The Travel Association - was founded in 1950 and is the largest travel trade association in the UK, with around 1,200 members and over 4,500 retail outlets and offices. In Scotland, ABTA has 42 members and 284 outlets and offices. Our Members range 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; several of ABTA's larger Members are themselves part of groups that own airlines. ABTA Members provide 90% of the package holidays sold in the UK, with Members also selling millions of independent travel arrangements. Annually, ABTA Members' turnover is in excess of £32 billion. The business of our Members is the provision of quality, efficient and competitively priced passenger travel.

ABTA has attended the ADT stakeholder meetings in 2016 and 2017.

Introduction

ABTA believes that the high levels of UK Air Passenger Duty (APD) 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 has continued to call for a reduction in overall rates of APD across the whole of the UK for the benefit of UK plc and all UK consumers.

ABTA therefore welcomed the Scottish Government's confirmation that they will reduce ADT by 50% by the end of the next Scottish Parliament and abolish the tax completely when resources allow. We further welcome the Scottish approach to taxation, particularly the engagement through the Scottish ADT stakeholder forum.

Executive Summary

- Although not liked, APD is an administratively simple tax. It is transparent and passengers know how much they will have to pay. There is much to be said for keeping ADT very similar in structure to APD.
- ABTA is pleased that the APD definitions and the rules relating to connected flights will be retained under ADT.

- The destination bands should be defined by distance from Edinburgh to capital cities with a 2,500 miles threshold.
- The 50% reduction should be applied from 1 April 2018 and should not be phased in. ABTA believes the reduction should be across the rates.
- As much advance notice as possible of rates, bandings and exemptions would be welcomed to ensure that tickets/holidays go on sale at the correct price to avoid unnecessary adjustments by refund, and in view of IT changes needed.

Call for Evidence

How best to achieve the strategic and policy objectives which the Scottish Government have set for the Bill and whether these objectives are appropriate;

The Scottish Government states that it will design and structure ADT in a way which boosts Scotland's air connectivity and economic competitiveness, encouraging the establishment of new routes which will enhance business connectivity and tourism. It further states that cutting the tax burden will help ensure a more level playing field with many other European airports competing to secure the same airlines and similar routes.

ABTA views ADT as positive providing that rates are reduced from the current APD levels charged in the UK.

Improving Scotland's air connectivity

ABTA believes that a reduction in tax would result in additional demand and encourage airlines and tour operators to introduce new services and routes from Scottish airports bringing more competition. This, in turn, is beneficial to consumers. Indeed, at the stakeholder meetings, airlines have said they would base more aircraft in Scotland.

The UK has the highest air travel tax anywhere in the world, making it a less attractive destination to visit, trade with, and invest in than many of our global competitors including Germany and France. It also makes holidays more expensive for families.

Pan-European air tax analysis, carried out by the *A Fair Tax on Flying* (AFTOF) campaign, in which ABTA is one of the leading organisations, shows that passengers flying from a UK airport pay, on average, five times more in passenger departure taxes than in those European countries that levy an equivalent tax. Only four other European countries levy a comparable tax (Austria, France, Germany and Italy), none of which comes close to the cost of APD.

In 2013, Germany froze its air passenger tax after the German Federal Government published a study on the economic effects of the tax, concluding that two million passengers did not travel in 2011 due to the higher air fares. The Dutch, having introduced a higher air travel tax than the Germans in July 2008 (levied at between €11.25 and €45) scrapped the tax after just one year because it was found that an estimated 1 million Dutch passengers opted to fly from German airports instead, to avoid paying the Dutch levy.

The Irish government's air travel tax was originally levied on air passengers at a rate of €10 for journeys of over 300km from Dublin with shorter flights levied at €2 per passenger; then reduced to a single rate of €3 per passenger. The tax was subsequently abolished by the Irish government in

April 2014 with the aim of boosting their air service network and assisting inward investment and tourism growth; we understand that they have since seen very positive results.

PwC's 2015 research, *The Economic Impact of Air Passenger Duty*[1], quantifies the significant benefits that abolition of APD could bring across the UK. Their research shows that APD reform could boost UK GDP by 0.5% in the first year, with continuing positive benefits to 2020; 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 report does not show specific figures for Scotland.

An ABTA infographic showing the value of travel and tourism to Scotland is attached at **Annex 1**.

Timing

ABTA strongly believes that the 50% reduction should be applied from 1 April 2018. There is a risk that the full productivity and growth potential of reducing APD would not be fully felt if it is phased in. Further, reduced tax is beneficial to passengers.

A phased introduction would be administratively burdensome and mean unnecessary changes having to be made to booking systems (websites; airline reservation systems; Global Distribution Systems (GDSs) and other third party booking/reservation systems; interfaces between these and operators/agents' own booking systems; back office systems used to generate e-tickets/itineraries/receipts/invoices, etc.).

As expressed at the stakeholder meetings, long lead-in times are required by airlines and tour operators for planning purposes. Typically, a scheduled airline will have tickets on sale up to 360 days in advance of departure. Tour operators sell holidays/publish brochures up to 18 months in advance and are required to include and identify all government taxes; holidays are already on sale for summer 2018.

Practically, it would helpful for the rates, bands and exemptions to be known as soon as possible so that tickets/holidays go on sale at the correct price. This would ensure there was little subsequent adjustment by way of refunds. This is advantageous to the passenger and all concerned in the booking process.

The extent to which the key concepts of the Bill with regard to the passengers and aircraft which will be subject to the tax are appropriate;

The appropriateness of the proposed structure for the tax;

The Scottish Government has stated that the structure of ADT will be similar to the structure of APD, in that the amount of tax incurred for the carriage of a chargeable passenger on a chargeable aircraft will depend on the passenger's final destination and class of travel.

ABTA believes that, although APD is not liked, it is an administratively simple tax. It is transparent and passengers know how much they will have to pay. There is much to be said for keeping ADT very similar to APD from an administrative perspective. Further, it is well understood by airlines, travel agents and tour operators.

[1] The Economic Impact of Air Passenger Duty - Analytical Update (May 2015)

For the same reasons, ABTA believes that there is much merit in retaining the destination based banding system, and the current APD exemptions. For example, the exemption for children was introduced following campaigning by AFTOF and is worth £50 million in the UK. In the interests of Scottish families travelling abroad for their annual holiday, for fairness, ABTA believes that whilst APD continues to exist these exemptions should continue in Scotland if they apply to the rest of the UK.

ABTA welcomes the designation of the APD Reduced, Standard and Higher rates as Standard, Premium and Special rates. We believe that these are more descriptive of the classes of travel.

Destination bands

ABTA agreed that the rate of ADT should depend on the passenger's final destination and believes destination bands should be defined by the distance from Edinburgh to capital cities.

ABTA recommends that the Scottish Government retains two bands with a modification to the 2,000 miles threshold (from London) to 2,500 miles (from Edinburgh). This would include all of the European Union, and allow Egypt and Israel to be given parity with other countries bordering the Mediterranean. Inclusion of these destinations in APD Band B with the long-haul destinations (despite their market competition being in the less expensive APD Band A) leads to a competitive challenge emerging. This would be politically expedient and assist Egypt in rebuilding their tourism industry to emerge again as a key destination for Scottish holidaymakers with the possibility of direct flights. By increasing the distance, this also reflects the maximum return journey that can be made in a single day, so there is a clear distinction between short-haul and long-haul flights within the tax banding.

There would be an advantage to the ADT bands being made known as soon as possible as, as mentioned above, changes will have to be made to booking systems.

Connected Flights

ABTA agrees with the ADT Connected Flight rules at Schedule 1 so that ADT is charged according to the passenger's final destination on connected flights on through tickets. Similarity with the APD rules relating to connected flights makes it simpler for all passengers and anyone selling a ticket to understand. It also ensures that Scottish originating passengers continue to use the UK hub airports to the advantage of all thus maintaining the choice of routes.

However, 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.

For example, a passenger commencing their journey in Edinburgh and connecting through Heathrow to Johannesburg would:

- On a through ticket pay the applicable rate of ADT for the entire journey.
- On unconnected separate tickets, pay the applicable ADT rate to Heathrow, the APD Band B rate to Johannesburg, and on the return the APD Band A rate to Edinburgh.

The proposed administrative arrangements for the payment, collection and management of the tax; and

These arrangements are for airlines so ABTA has no comments to make.

Any other issues which are considered relevant to the proposed tax.

ABTA has no further comments to make.

Thank you for taking our comments into consideration. We would welcome the opportunity to discuss any points raised in our response further with the Committee.

Further information

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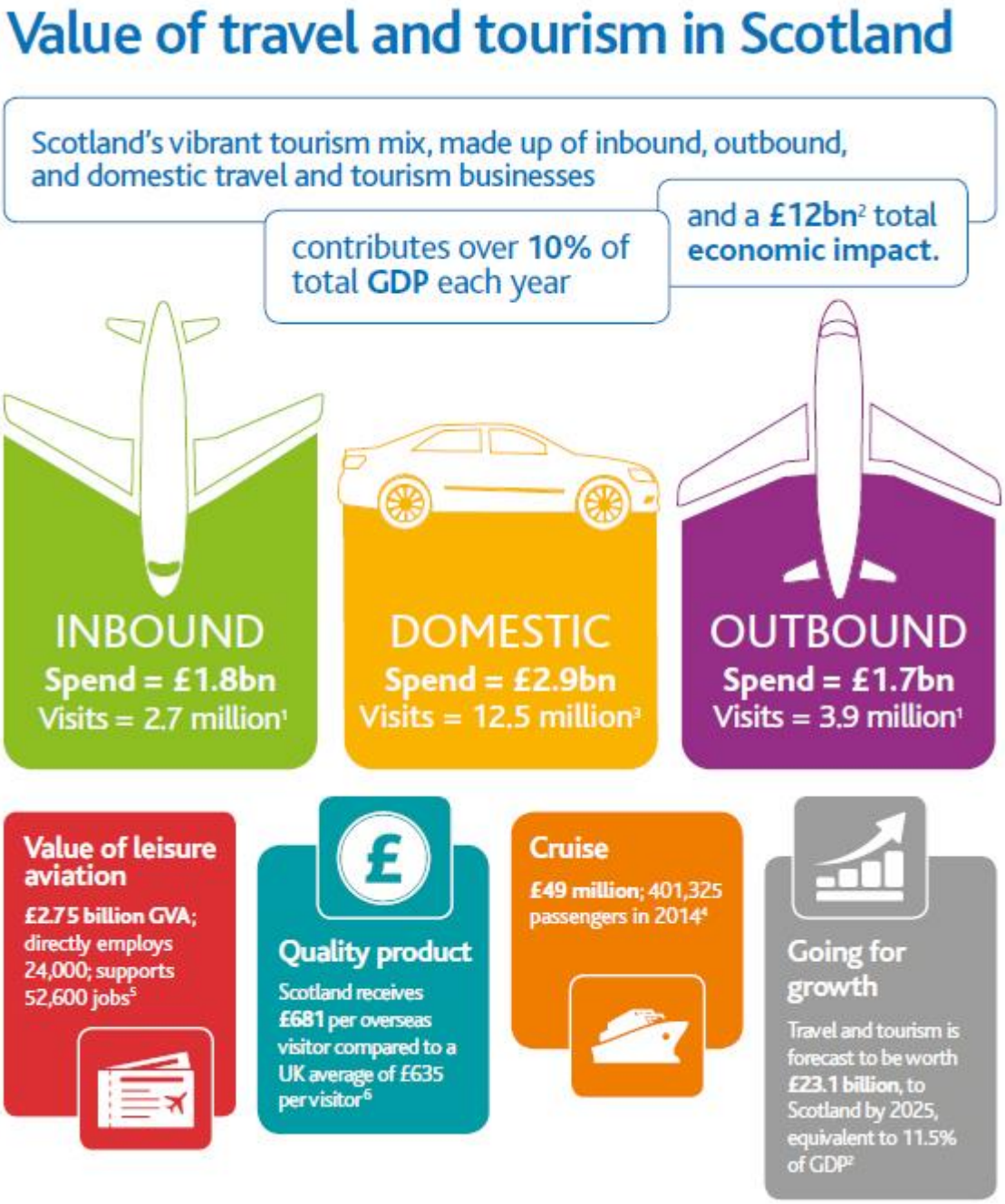
2 February 2017

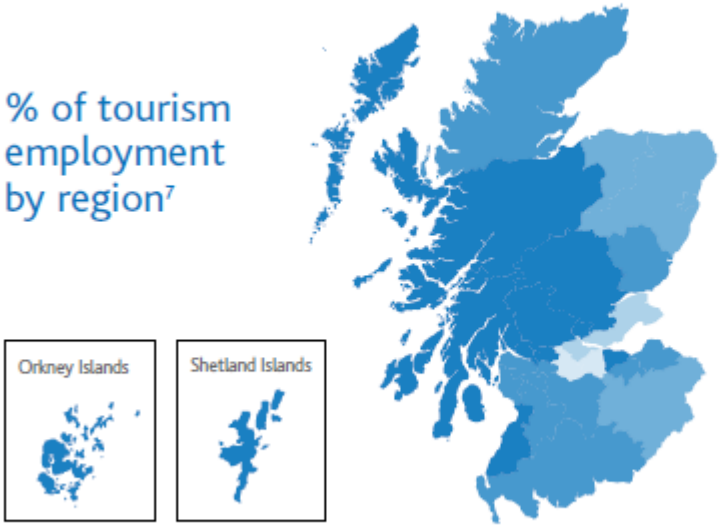
Annex 1 - March 2016



1 ONS Travel Trends 2014
2 Deloitte, Tourism: jobs and growth, 2013
3 GBTS 2014
4 Cruise Scotland, 2015
5 CEBR, the UK's leisure aviation economy, 2013
6 Scottish Parliament Information Centre, 2016
7 ONS Characteristics of tourism industries 2014

Tourism employment in Scotland

% of tourism employment by region[7]



% of tourism employment	Regions	Colour represented on map
10.86% to 17.30%	Lochaber, Skye, Lochalsh, Arran, Cumbrae, Argyll, Bute, Orkney Islands, Perth, Kinross, Stirling, South Ayrshire, City of Edinburgh, East Dunbartonshire, West Dunbartonshire, Helensburgh, Lomond, Shetland Islands, Inverness, Nairn, Moray, Badenoch, Strathspey and Eilean Siar (Western Isles)	
9.23% to 10.85%	Caithness & Sutherland, Ross & Cromarty, Angus, Dundee City, East Lothian, Midlothian, Dumfries, Galloway, Glasgow City, East Ayrshire, North Ayrshire mainland, 16. Inverclyde, East Renfrewshire, North Ayrshire mainland, Inverclyde, East Renfrewshire, Renfrewshire and South Lanarkshire	
8.37% to 9.22%	Clackmannanshire, Fife, Aberdeen City, Aberdeenshire and Scottish Borders	
7.48% to 8.36%	Falkirk	
4.91% to 7.47%	North Lanarkshire and West Lothian	

292,000 tourism economy jobs[2]

11% of all employment[2]

42% under 30[7]

58% female[7]