



### Scottish Government Consultation on Air Passenger Duty – SPT Response

**Committee** Strategy and Programmes

**Date of meeting** 20 May 2016

**Date of report** 25 April 2016

#### Report by Assistant Chief Executive (Operations)

#### 1. Object of report

To recommend approval of the key principles of SPT's response to the Scottish Government's consultation on its proposals for Air Passenger Duty (APD)<sup>1</sup> and on the associated Strategic Environmental Assessment Screening and Scoping Report<sup>2</sup>. The consultation closes on 3 June 2016.

#### 2. Background

- 2.1 The Scottish Government is seeking views from stakeholders on how a Scottish replacement for APD should be structured and operated, with a view to help achieve the strategic objective of sustainable growth through improving air connectivity in Scotland.
- 2.2 APD is charged on all passenger flights from UK airports. The rate of tax varies according to where the passenger is going, and the class of travel, starting at £13 for short-haul flights to Europe with a maximum of £142 for long-haul flights charged on a per passenger basis.
- 2.3 APD for economy flights was abolished for children under 12 in May 2015 and for children under 16 from March 2016. If a seat is purchased for an infant under 2 years then APD is chargeable. Passengers flying from Highlands and Islands Airports are exempt from APD as are services between Glasgow and Barra, Tiree and Campbeltown.
- 2.4 The Smith Commission recommended that "the power to charge tax on air passengers leaving Scottish airports will be devolved to the Scottish Parliament". With the passing into law of the Scotland Act 2016, the Scottish Government is now

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<sup>1</sup> The main consultation document can be accessed at:

[https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty/user\\_uploads/apd---a-consultation-on-a-scottish-replacement-to-apd.pdf-1](https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty/user_uploads/apd---a-consultation-on-a-scottish-replacement-to-apd.pdf-1)

<sup>2</sup> The Strategic Environmental Assessment Screening and Scoping Report can be accessed at:

[https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty/user\\_uploads/apd---sea-screening-and-scoping-report.pdf-1](https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty/user_uploads/apd---sea-screening-and-scoping-report.pdf-1)

free to make its own arrangements with regard to the design and collection of any replacement tax, including consideration of the environmental impact.

- 2.5 The Scottish Government set out its intention to introduce a Bill on APD before the next Scottish Parliament for its consideration, dependent on the results of the consultation and the Scottish Parliament elections in May 2016. This would enable a further opportunity for stakeholders to contribute their views on both the proposals for the tax and the Bill itself.

### 3. Outline of proposals

#### *Key Issues*

- 3.1 The Scottish Government announced in its Programme for Government 2015-16 that, in order to help achieve its strategic objectives for improving Scotland's air connectivity, it would reduce APD in Scotland by 50% by the end of the next Scottish Parliament.
- 3.2 The reduction would begin to be implemented when a Scottish replacement to APD is introduced in April 2018 and delivered in full by the end of the next Scottish Parliament, expected to be in 2021. The Scottish Government intends to abolish the tax completely when resources allow.
- 3.3 In addition to tax rates and general governance arrangements, the consultation document also considers the following:
- ***What the scope of a future Scottish tax should be*** – For example, whether it should apply on a per-passenger basis as is the case with the present tax.
  - ***What tax bands should apply?*** - Under the current APD arrangements, Band A destinations include countries whose capital city is 2,000 miles or less from London and Band B destinations - countries whose capital city is more than 2,000 miles from London.
  - ***Whether subsequent connected flights should remain non-chargeable?*** - The Scottish Government supports the general principles behind the connected flight rules for APD, where a passenger with a ticket is not a chargeable passenger on the second or subsequent flight of their journey if that flight and the previous flight are connected.
  - ***What potential exemptions should exist?*** – For example, whether current exemptions should apply such as for children under 16 years on economy flights.
- 3.4 The Scottish Government has highlighted studies commissioned by the aviation industry that have found that reducing or abolishing UK APD could have a net economic benefit in terms of economic growth, job creation and increased overall tax receipts. In Scotland, an Edinburgh Airport study of March 2015 found that, if APD was reduced by 50% in 2015, by 2020 it would have created up to 3,800 extra jobs and added £200 million per annum in Gross Value Added for the Scottish economy. The same study estimates that a 50% reduction in APD in 2015 would result in 900,000 additional passengers through Scotland's airports by 2020.
- 3.5 However, the Scottish Government's Strategic Environmental Assessment (SEA) Screening and Scoping Report accompanying the consultation acknowledges that a

50% reduction in APD for flights departing Scottish airports will have negative environmental impacts across all SEA topic areas, including:

- Climate change impacts will have implications across all SEA topic areas (Climate, Population and Human Health, Infrastructure and Waste, Air, Biodiversity, Flora and Fauna, Soil, Water, Landscape, Cultural Heritage and the Historic Environment);
- An increase in Greenhouse Gas emissions (CO<sub>2</sub> and non GHG emissions) has been identified; and
- Changes in air quality and noise may arise through increased flight and passenger numbers and increased traffic to and from airports.

3.6 While noting these potentially adverse impacts, the Scottish Government also considers that accessibility may be improved through increased connectivity of associated infrastructure and more frequent and diverse flight routes. They also point to advances in less polluting fuels and the potential for improved aircraft traffic management.

3.7 The Scottish Government has noted the potential for increased pressure on existing transport and airport infrastructure as a result of the proposal to reduce and eventually abolish APD, leading to increased passengers and flights utilising Scottish airports. However, the Scottish Government also sees there being an opportunity to explore opportunities for greater transport connectivity and increased inter-modal travel through future upgrades of existing infrastructure and/or construction of new transport infrastructure between urban centres and airports.

#### *SPT response – Key principles*

3.8 In principle, SPT broadly welcomes the proposal to reduce APD given the potentially significant economic benefits that are likely to accrue. However, we acknowledge that potentially damaging impacts on the environment arising from more flights including increased carbon emissions, adverse impacts on air quality and the impact on noise levels are likely.

3.9 In addition, consideration will need to be given to the potential impacts of a reduced or abolished APD on other modes. This includes coach travel to and from England and also long distance rail franchises (Cross Country, West Coast, East coast, TransPennine and Caledonian Sleeper services). These could all be adversely affected by reduction/abolition of APD. Reduction/abolition of APD could also have potentially negative impacts on the business case for High Speed Rail.

3.10 For this reason, SPT will make clear in its response that any decision to reduce or abolish APD as part of a new Scottish regime must only be taken if there is a clear strategy to mitigate the potentially adverse impacts and to strengthen the transport infrastructure around airports, including at Glasgow Airport and Glasgow Prestwick Airports. Such a strategy should place greatest emphasis on improving public transport and active travel opportunities for air passengers and airport staff.

## **4. Conclusions**

4.1 The Scottish Government is seeking views on how a Scottish replacement to APD should be structured and operated in order to help achieve the strategic objective of sustainable growth through improving air connectivity in Scotland. If re-elected, the SNP Government intends to reduce the tax by 50% by the end of the next Parliament and abolish it completely when resources allow.

- 4.2 SPT broadly welcomes the proposals given the economic benefits which are forecast to accrue. However, we acknowledge the potentially damaging environmental impacts and pressure on current transport infrastructure and services which a reduction or abolition is likely to bring.
- 4.3 For this reason, SPT's response will make clear that any decision to reduce or abolish APD must be conditional on a clear and funded investment strategy to mitigate the likely environmental impacts. Such a strategy must also consider how best to strengthen transport infrastructure around airports to ensure local networks can accommodate anticipated additional demands. In addition, a robust analysis of the impacts on long distance UK coach and rail services should be undertaken.

## 5. Committee action

The Committee is recommended to approve the key principles of SPT's response to the consultation.

## 6. Consequences

Policy consequences	<i>The future impacts of APD reduction or removal have yet to be fully quantified.</i>
Legal consequences	<i>None</i>
Financial consequences	<i>None</i>
Personnel consequences	<i>None</i>
Equalities consequences	<i>None</i>
Risk consequences	<i>None</i>

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