



Air Passenger Duty

Scottish Conservative Policy Note

Background

Following the devolution of Air Passenger Duty to the Scottish Parliament, it will be up to the Scottish Government to bring forward proposals for the structure and rates of a departure tax levied on passengers departing from Scottish airports.

The SNP promised to reduce APD by 50% once the powers are devolved, estimated to cost around £140m.

Since May, and especially since the EU Referendum, we have been consulting widely with stakeholders to assess whether a cut in APD at this time was desirable.

Air Passenger Duty

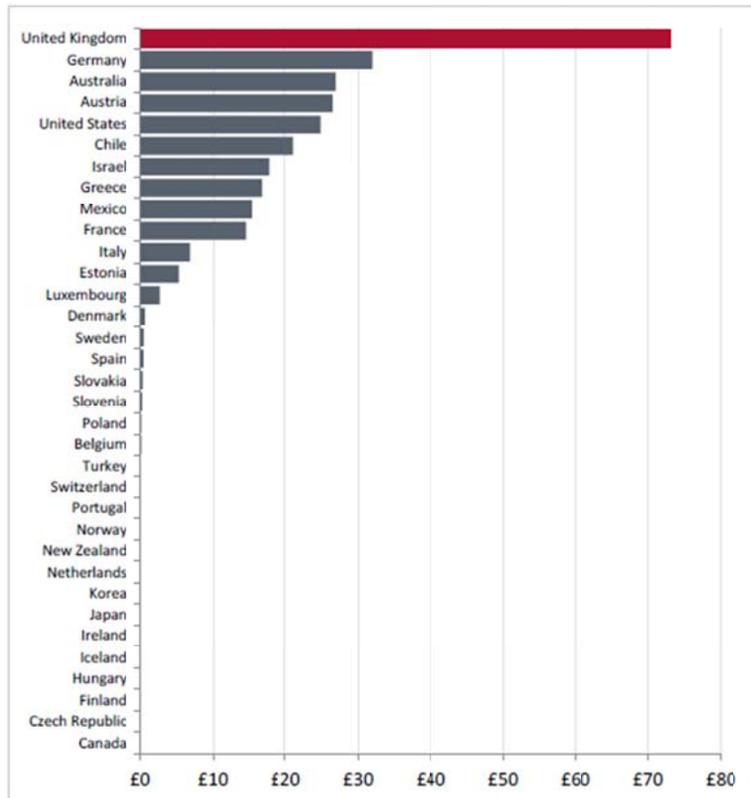
APD has gone through significant change over the years. It was originally introduced in 1994 under a 2 band structure, with Band A chargeable on domestic and EU/EEA flights and Band B on all others. The rates were set at £5 and £10. Over time APD developed into a significant revenue-raising measure and up until 2015 operated in a 4 band structure based on distance of capital cities from London.

The former Chancellor, George Osborne, reformed APD back into a 2 band model with additional exemptions for children under 12 and later children under 16. The latest APD rates chargeable from 1 April 2017 will be as follows:

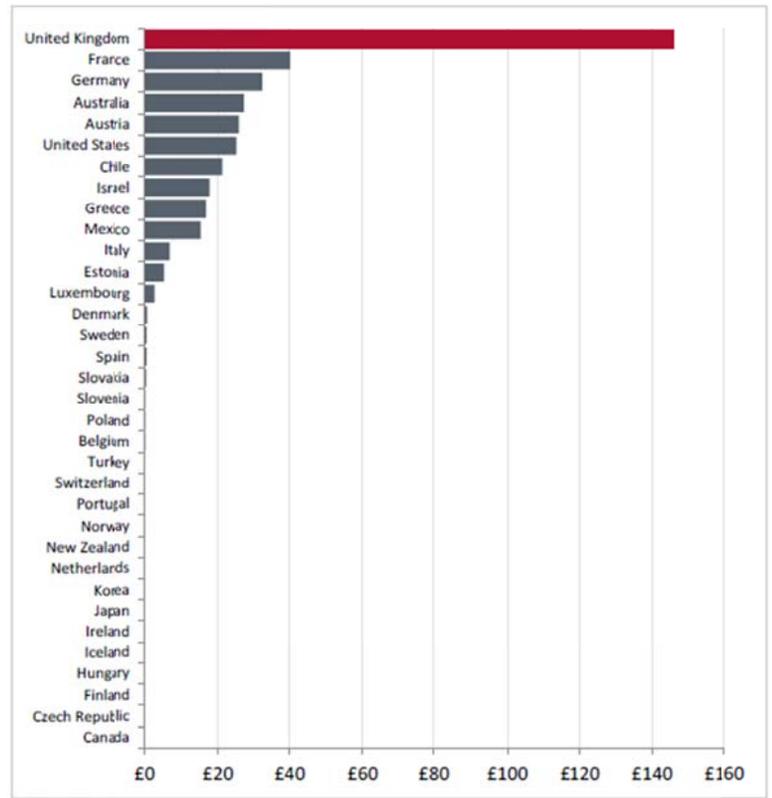
Destination Bands and distance from London (miles)	Reduced rate: (for travel in the lowest class of travel available on the aircraft)	Standard rate: (for travel in any other class of travel)	Higher rate: (for travel in aircraft of 20 tonnes or more equipped to carry fewer than 19 passengers)
Band A (0 to 2,000 miles)	£13	£26	£78
Band B (over 2,000 miles)	£75	£150	£450

APD is one of the highest departure taxes in the world and is by far the highest long-haul rate in the world, more than double the level of the second highest rate (Germany).

Long-haul economy (OECD)



Long-haul business and first (OECD)



International evidence supports the existence of a link between air travel demand and departure tax rates. In the Netherlands, for example, a departure tax was introduced in 2008, only to be scrapped two years later following dropping passenger and tourist numbers. A study later estimated the cost to the Dutch economy at €1.3 billion.

The Irish Government abolished its travel tax in April 2014 and annual airport traffic rose the next year by 3.3m to 29.8m customers. Ireland is a relevant example since its geography and population are similar to Scotland's. However, looking at passenger statistics, the gap in long-haul flights is obvious – in 2015 there were around 470,000 passengers travelling to or from the United States in Scotland, while in Ireland that number is over 2.5 million.

Several modelling exercises have been done in the past, which have estimated the benefits to Scotland's economy that would follow a reduction in APD. York Aviation in 2015, for example, estimated that a reduction of 50% would help create around 3,800 new jobs by 2020 in Scotland. Elsewhere, Biggar Economics estimated a 50% cut in APD by April 2018 would result in 4.6 million additional passengers per year passing through Scottish airports by 2021.

Scottish Conservative Proposal

Our wide engagement with stakeholders has clarified the opportunities arising from a cut in the rate of APD, especially in a post-referendum setting. We believe that both the UK and Scottish Governments should focus on increasing our international exports and a cut in the most uncompetitive departure tax in the world can contribute to that.

In addition, the evidence on tourist spend also suggests that international tourists tend to spend more on average than domestic and EU tourists. The World Economic Forum's 2015 Global Travel & Tourism Report lists the UK as 137th out of 140 countries in terms of ticket tax and airport charge competitiveness.

We have therefore concluded that a reduction in APD can both assist in boosting exports and strengthening our international links as well as help promote Scotland as a more attractive and competitive tourist destination. Such a reduction should not be phased in, but pre-announced for April 2018 to allow airlines to both plan route development ahead and reflect the changes in their pricing structure.

We believe that instead of a 50% cut across all bands and rates, we should focus on cutting and reducing the cost of long-haul flights to develop closer export relationships with some of the world's fastest growing markets and making Scotland a more competitive destination to high-value overseas tourists.

We will therefore advocate the abolition of the reduced rate (economy) on long-haul flights altogether and the halving of the standard rate on long-haul flights. The higher rate should remain unchanged. Based on most recent data this would cost £145m.

Band A levied on short-haul flights should be maintained at current levels, but the reduced and standard rates should remain frozen at £13 and £26 until the end of this Parliamentary term.

Most air travel stakeholders we consulted, while supportive of cutting APD, would prefer a system as close as possible to the legacy APD structure. This came across in the responses to the Scottish Government's own consultation too. We will argue for the retention of an APD structure as close to this as possible.

In summary:

- Retain existing APD structure, destination linked from Edinburgh (with minor adjustment to mileage to maintain consistency).
- From April 2018 abolish the reduced rate and halve the standard rate for Band B at a cost of £145m – ca. 50% of Scottish APD receipts.
- Freeze Band A reduced and standard rates until April 2021.

ANNEX

Illustrative costing of the abolition of the reduced rate and the halving of the standard rate of APD for Band B

[Please note: These are estimates based on the latest publicly available data. They are not based on actual Scottish outturns nor do they take into account behavioural impacts.]

HMRC APD Statistics: 2015/16 UK passenger numbers and receipts (Band B has increased for 16/17 and is due to increase further for 17/18):^[1]

Year	Passenger Numbers (Thousands)				Total	Total Receipts
	Band A		Band B			
	Reduced Rate A (£13)	Standard Rate A (£26)	Reduced Rate B (£71)	Standard Rate B (£142)		
2015/16	85,184	1,585	17,986	4,509	109,301	£3.077bn

Scotland's share of APD in 2015/16 was £275m – or 9.1%. ^[2] The SNP's promise to reduce the burden by 50% will therefore cost around £140m a year.

Costing for abolishing the reduced rate of Band B

Assuming the 9.1% share applies evenly as above, the cost of abolishing the reduced rate of APD for Band B flights altogether would be £116.2m:

- Scotland passenger numbers: $17,986,366 * 9.1\% = 1,636,759$
- Revenue at £71 per flight: $1,636,759 * £71 = £116,209,910$
- Cost of abolition: £116.2m

Costing for halving the standard rate of Band B

Assuming the 9.1% share applies evenly as above, the cost of halving the standard rate of APD for Band B flights would be £29.2m:

- Scotland passenger numbers: $4,508,957 * 9.1\% = 410,315$
- APD revenue at £142 per flight: $410,315 * £142 = £58.3m$
- Cost of halving standard rate of Band B = £29.2m

^[1] HMRC, *APD Bulletin*, June 2016, [link](#)

^[2] GERS 2015-16