The impacts of proposed changes in Air Passenger Duty

Analysis for easyJet

May 2011

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Air passenger duty

Rates and structure of Air Passenger Duty (APD)

Current APD bands	From 1 November 2010
	Reduced rate **(in lowest class of travel)**
Band A (0 – 2,000 miles)	£12 (£13)
Band B (2,001 – 4,000 miles)	£60 (£65)
Band C (4,001 – 6,000 miles)	£75 (£82)
Band D (over 6,000 miles)	£85 (£93)

Rates in brackets are HMT estimates of APD rates from April 2012. These estimates assume an increase of reduced rates by forecast RPI inflation in 2011 (deferred for a year) and 2012, and are then rounded to the nearest pound. Standards rates are charged to passengers travelling in other classes of accommodation at twice the reduced rates.

Air Passenger Duty is a tax levied on air passengers on departure from UK airports. It is collected from airlines.

The current four band structure was introduced in 2009 with the intention of reducing emissions from aviation by 600,000 tonnes a year by 2011-12.

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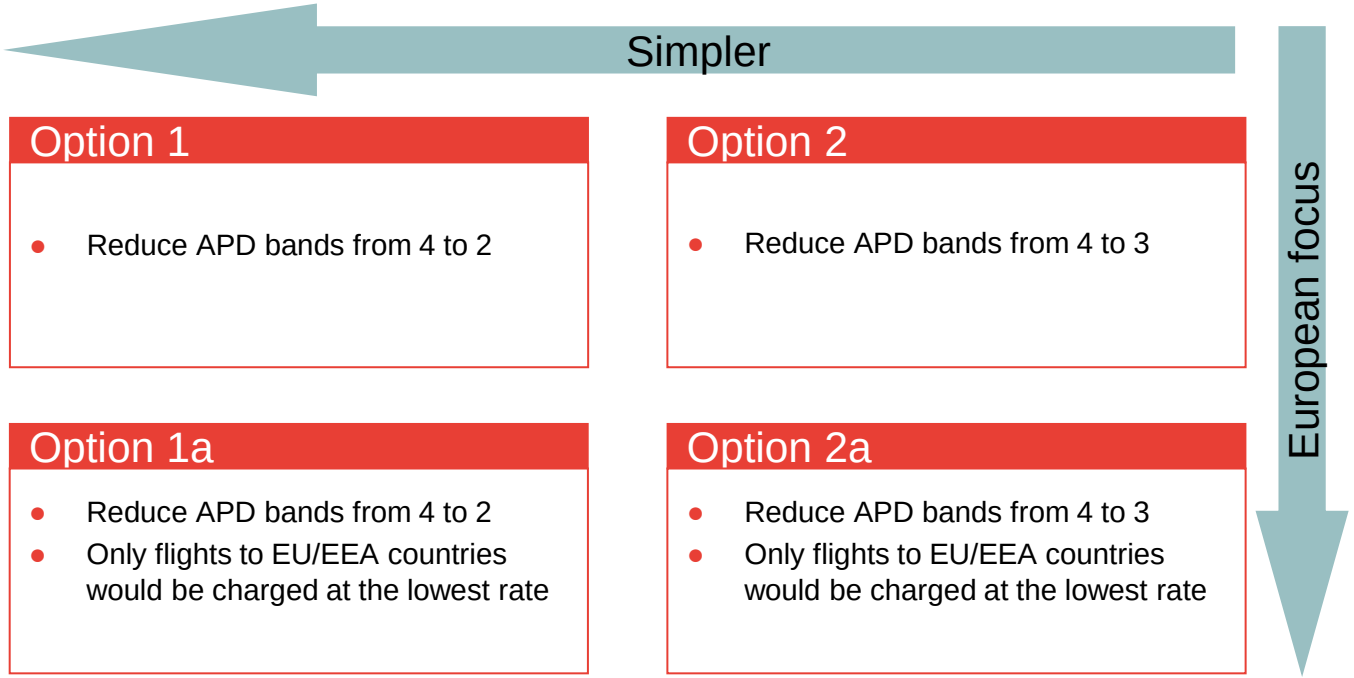
HM Treasury proposes to change Air Passenger Duty

Proposed timing of the changes

1	Consultation issued	The consultation was issued following government meetings with industry associations and lobby groups, and meetings with some airports and airlines that would be directly affected by the proposal	23 March 2011
2	Consultation period	Interested parties consider the implications of the proposed changes and prepare responses to HM Treasury	8 weeks
3	Consultees' respond	Interested parties have the opportunity to submit formal responses to HM Treasury for it to consider when determining the APD tax policy for 2012 onwards	June 17 2011
4	Treasury sets policy	Treasury reviews the consultation responses and amends the policy in light of those	Summer 2011
5	Changes implemented	Changes to APD are proposed to be implemented in April 2012	April 2012

The main purpose of the changes is to simplify APD

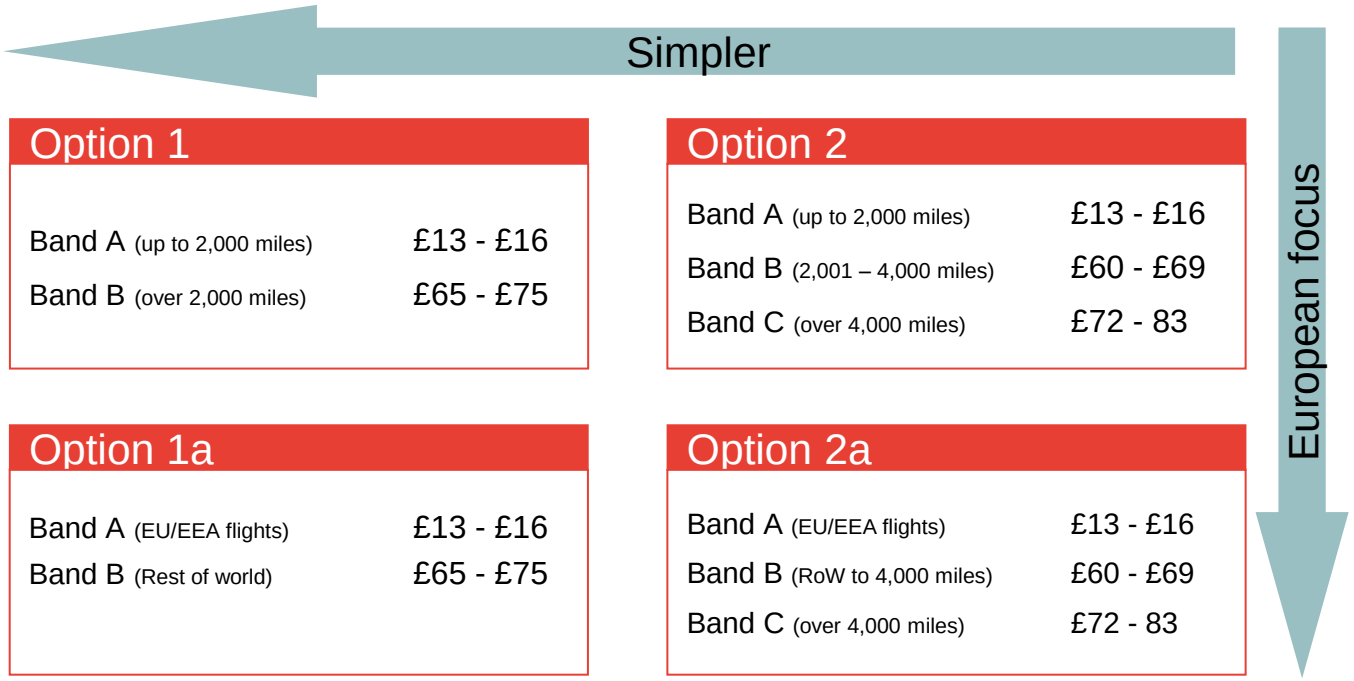
The main options for change



The sub-options increase the tax collected from short-haul operations serving non-EU markets. Other changes being considered are the collection of APD from business jet passengers, redefining the class of travel, and the regional impacts of APD. Per-plane taxes are not being considered as HMT do not wish to pursue this without a consensus.

The proposed rates mean increases for short haul passengers

Proposed rates of APD for lowest class of travel



Option 1

Band A (up to 2,000 miles)	£13 - £16
Band B (over 2,000 miles)	£65 - £75

Option 2

Band A (up to 2,000 miles)	£13 - £16
Band B (2,001 – 4,000 miles)	£60 - £69
Band C (over 4,000 miles)	£72 - 83

Option 1a

Band A (EU/EEA flights)	£13 - £16
Band B (Rest of world)	£65 - £75

Option 2a

Band A (EU/EEA flights)	£13 - £16
Band B (RoW to 4,000 miles)	£60 - £69
Band C (over 4,000 miles)	£72 - 83

HMT intends for the changes to be revenue neutral. BUT the collapsing of long haul bands implies increases of up to £3 per short haul passenger. APD charged for passengers travelling in premium classes is proposed to change similarly to the reduced rate.

For each of the 6 important things affected by the proposed changes to APD, our assessment is rated by traffic lights

6 areas where the outcome from the proposal matters to the UK

- Air travel
- Emissions
- Economy
- Jobs
- Tourism
- Regional

3 classifications of the impacts

- Negative impact
- Little or no impact
- Positive impact

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Summary of our findings

We predict detrimental outcomes for the UK of the proposed reform of APD rates in all of the following areas.

All 4 of the options presented in the HMT consultation lead to negative consequences in all areas.

Impacts		
	Air travel	Passengers will take around 3 million fewer trips a year to and from UK airports, a fall of c1.5%. However, passenger kilometres flown could increase by up to 2.5 billion a year as a result of the proposed changes favouring long haul operations.
	Emissions	Emissions from aviation will increase by up to 360,000 tonnes of CO_2 a year. The cost of this pollution would be up to £19 million, estimated using DECC values of CO2 emissions.
	Tourism	Spending in the UK by overseas residents could fall by up to £475 million a year.
	Economy	GDP will be hit by lower spending by foreign visitors and knock-on impacts in the UK supply chain. As a consequence, GDP could be reduced by as much as £2.6 billion a year.
	Jobs	Up to 77,000 jobs could be lost as a consequence of the changes. People employed in travel and tourism will be hardest hit.
	Regional	The impacts will be proportionately slightly greater in the regions than in London. The impacts on London will be partly mitigated by gains for long haul operations.

All of the consultation options are bad for the UK

Impacts		Option 1	Option 1a	Option 2	Option 2a
	Air travel	2.9m fewer passengers	2.8m fewer passengers	2.8m fewer passengers	2.8m fewer passengers
	Emissions	+210,000 tonnes CO_2	+360,000 tonnes CO_2	+120,000 tonnes CO_2	+250,000 tonnes CO_2
	Tourism	£475 million less foreign spending in the UK	£450 million less foreign spending in the UK	£465 million less foreign spending in the UK	£445 million less foreign spending in the UK
	Economy	Up to £2.6bn lost GDP	Up to £2.5bn GDP lost	Up to £2.6bn GDP lost	Up to £2.5bn GDP lost
	Jobs	Up to 77,000 jobs lost	Up to 73,000 jobs lost	Up to 75,000 jobs lost	Up to 72,000 jobs lost
	Regional	Bad for all regions	North East gains, and impact is less in Scotland	Bad for all regions	North East gains, and impact is less in Scotland

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The proposed reforms of APD rates will reduce air travel

Air travel	
We predict that that the options being considered would lead to an overall decline of about 1.5% in air travel in the UK. Reductions in APD increase demand for long haul air travel but not by enough to offset the negative impact on demand for short haul air travel. The impact is similar whether the number of APD bands is reduced to two or three. In both cases the number of flights taken falls by around 2.5 to 3 million a year. The option of charging the lowest rate of APD for passengers travelling within the EU/EEA has a slightly less detrimental effect on short haul air travel demand. This change would reduce the total fare paid for flights to destinations such as Cyprus, and some of the Greek islands while prices for flights to North African destinations, for example, would go up.	
Short haul	Long haul
Business	Business
up to 15,000 fewer passengers a year	Up to 30,000 more passengers a year Long haul business travellers respond the least to changes in the fares they pay
Leisure	Leisure
Up to 2.7 million fewer passengers a year Short haul leisure passengers respond most to changes in the fares they pay	Up to 500,000 more passengers a year
Visiting friends and relatives	Visiting friends and relatives
Up to 900,000 fewer passengers a year	Up to 130,000 more passengers a year

The proposed changes to APD rates will increase emissions from aviation

Emissions	
Despite the reduction in short haul passenger numbers being substantially greater than the gain in long haul passengers, total CO_2 emissions from aviation would go up. The HMT consultation document proposes ignoring environmental costs and benefits from increased CO_2 emissions on the basis that aviation emissions will be capped under the trading arrangements. We think this argument has no basis in fact as the increase in km flown causes more CO_2 to be emitted regardless of whether permits must be traded to remain within the cap.	
Short haul	Long haul
CO_2 emissions down by up to 500,000 tonnes a year £16 - 25 million benefit to the environment	CO_2 emissions up by up to 700,000 tonnes a year £29 - 36 million cost to the environment

Lower spending by fewer overseas visitors will knock the UK economy

Economy
As a result of the proposed changes, we predict fewer visitors coming to the UK. This downturn in visitor numbers will, in turn, lead to lower spending by overseas residents in the UK. This lower spending will have a direct impact on GDP in the travel and tourism sector and the fall in economic activity in the sector will have knock-on impacts in the supply chain. This negative consequence of the proposed change may be offset to some extent by increased spending at home by UK residents who choose to travel abroad less. **This effect is not considered in the range estimated below.**
UK economic output (GDP)
Falling economic activity in the travel and tourism sector Direct hit to sector GDP of £290 - £310 million a year Total impact on the wider economy is up to £2.6bn of GDP lost a year

Short haul visitors	Long haul visitors
1.6 million fewer overseas visitors arriving on short haul flights	0.3 million more overseas visitors arriving on long haul flights

The proposed changes to APD rates will destroy jobs in the aviation, travel and tourism sector

Jobs

As spending by overseas visitors falls, we predict that output in the sector will reduce and that jobs would be cut. Lower spending through the supply chain is also predicted to lead to job cuts in the wider economy. The impact on jobs may be offset to some extent by UK residents spending more at home rather than when travelling abroad. **This effect is not considered in the range estimated**.

UK employment

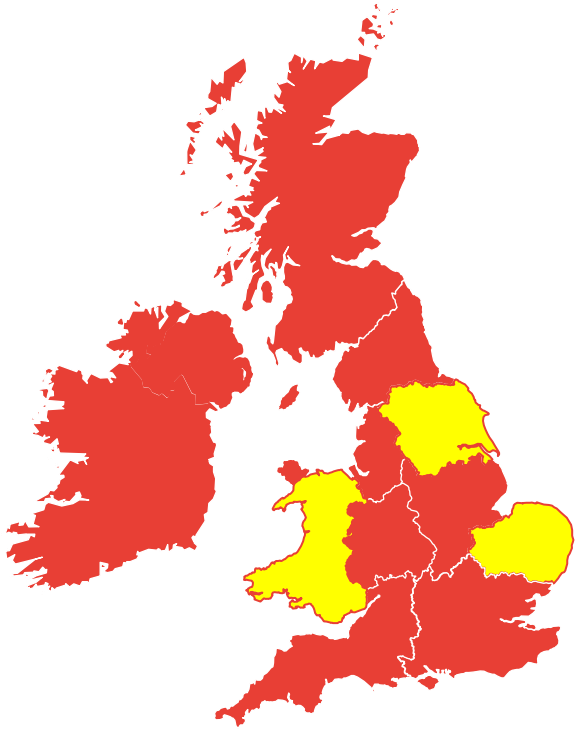
28,000 – 31,000 jobs lost from the travel and tourism sector

Up to 76,000 jobs lost across the economy

All regions suffer under the proposals

Regional impacts

There are detrimental impacts of the proposed changes in all regions of the UK. The South East is most affected despite the offsetting positive effect of reduced APD for some long haul travellers. Scotland and Wales have the opportunity to lobby to be able to set their own rates of APD in this consultation. Scotland's airports lose up to 230,000 passengers a year, and with the 2011 election success of the SNP in the Scottish parliamentary election it is possible that the Scottish government could lobby to set its own rates. In Wales however the base passenger numbers are low so, despite negative consequences of the changes, we would expect less political interest.



Region	Change in Passenger trips	as a percentage of total
South East	-1,549,000	-1.4%
North West	-323,000	-1.5%
Scotland	-230,000	-1.3%
South West	-214,000	-2.5%
West Midlands	-158,000	-2.7%
East Midlands	-114,000	-3.3%
Northern Ireland	-104,000	-1.4%
Yorkshire and Humberside	-94,000	-0.9%
North East	-60,000	-1.2%
Wales	-31,000	-1.3%
Channel Islands	-25,000	-2.9%
East	-7,000	-0.4%

Regional airports in the UK will see lower passenger numbers as a consequence of the proposed changes

Impacts at airports around the UK

The impact of the proposed changes are greatest in the South East of England. Heathrow airport is not negatively affected because of a predicted increase in long haul travel from there which offsets the reduction in short haul flying from Heathrow. Stansted, Gatwick and Luton are the biggest losers from the proposed changes seeing annual passenger numbers declining by around 3 per cent.

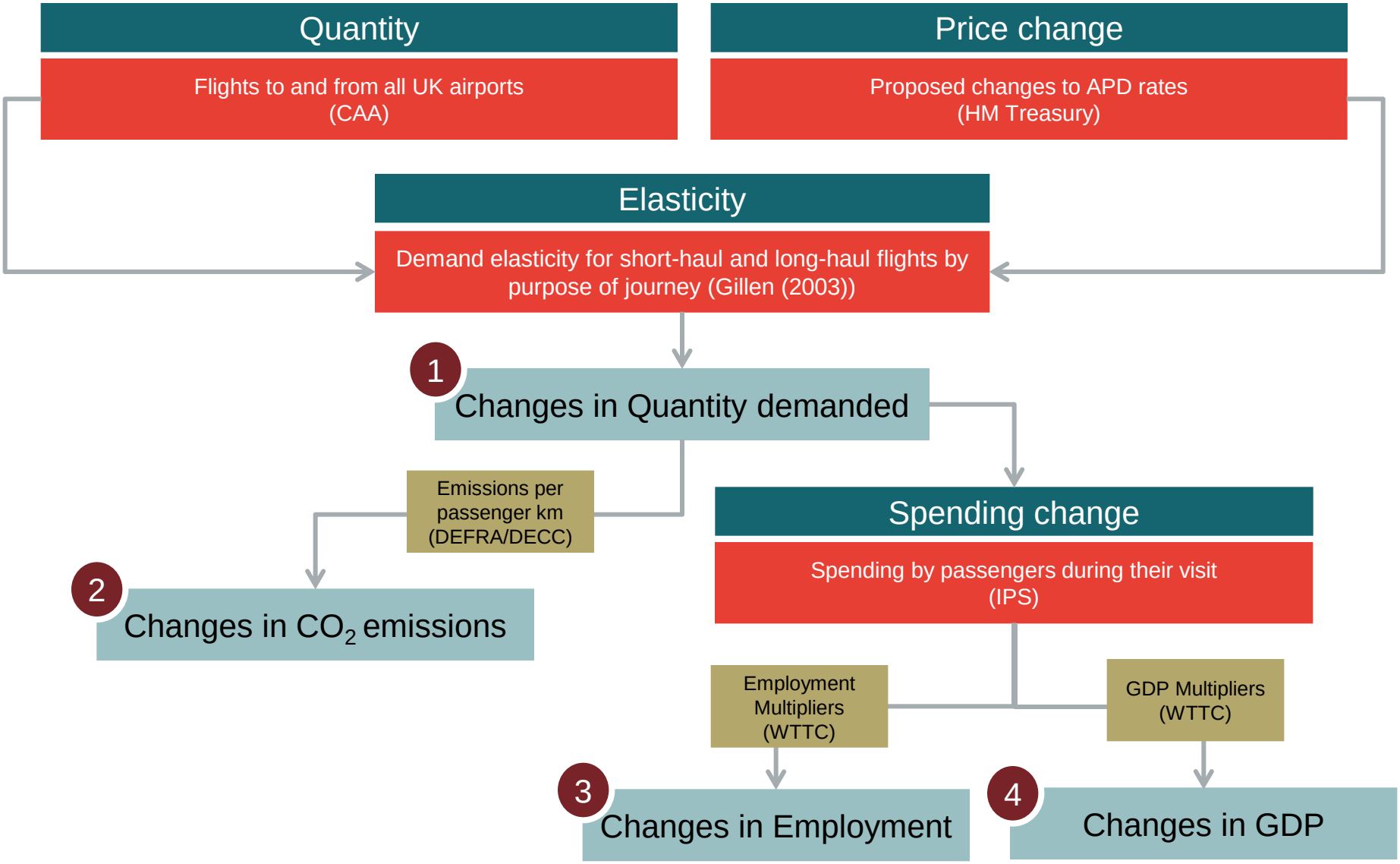
Airport	Change in Passenger trips	as a percentage of total
London Stansted	-597,000	-3.2%
London Gatwick	-562,000	-1.8%
London Luton	-249,000	-2.9%
Manchester	-170,000	-1.1%
Bristol	-166,000	-3.0%
Birmingham International	-158,000	-1.9%
Liverpool	-148,000	-3.5%
East Midlands	-114,000	-3.0%
Edinburgh	-109,000	-2.3%
Leeds Bradford	-67,000	-2.8%

Data sources

We have used data from official and well regarded sources to assess the impacts of the proposed changes in APD. From this analysis of the changes in the tax, we predict detrimental outcomes for the UK.

Description	Year	Source
Passenger numbers by airport of origin and destination	2010	CAA
Flight distances	2011	Frontier calculation
Fares	2009	ONS, International Passenger Survey
Journey purpose	2009	ONS, International Passenger Survey
Passenger spend during trip	2009	ONS, International Passenger Survey
Own price elasticity of demand for air travel	2003	Canadian Department of Finance
CO2 emissions from aviation	2010	DEFRA
Value of CO2 emissions (non-traded values)	2009	DECC
GDP (travel and tourism sectors)	2010	World Travel and Tourism Council, UK Country Report

Methodology





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FRONTIER ECONOMICS EUROPE LTD.
BRUSSELS | COLOGNE | LONDON | MADRID

Frontier Economics Ltd, 71 High Holborn, London, WC1V 6DA
Tel. +44 (0)20 7031 7000 Fax. +44 (0)20 7031 7001 www.frontier-economics.com