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Aviation Duty Consultation
Environment and Transport Taxes
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Dear Sirs

Aviation Duty Consultation

Introduction

Stop Stansted Expansion ('SSE') welcomes the opportunity to comment on the aviation duty consultation. SSE represents some 7,000 members and supporters, has no political affiliations and our membership includes 140 parish and town councils, residents' groups, national and local environmental groups and other organisations.

We strongly support the Government's decision to replace air passenger duty ('APD') with a duty payable per plane with effect from November 2009. We have long advocated a duty per plane approach and we commend HMT for producing such a comprehensive consultation document on the subject with the pros and cons of alternative approaches set out in a clear and balanced way.

Our responses to the consultation questions are set out below.

Q1. What would be the simplest and most transparent method of using maximum take-off weight: banding or straight calculation of either the constant MTOW or some function of MTOW?

Although banding would appear to simplify the application of the new aviation duty there would inevitably be borderline cases giving rise to arguments about unfairness and possibly even some manipulation. We therefore support the use of actual, certified MTOW.

Q2. Are there any possible distortions/problems caused by using MTOW?

We would not pretend that MTOW is a perfect solution but it is a fair and reasonable proxy for emissions and it has the major advantage of not being subject to much argument. MTOW does not correlate precisely to fuel usage or emissions and to that extent there is scope for some distortion of behaviour but we fully understand the potential legal problem if it did so. In our view MTOW is by far the most sensible of the options available.

Q3. What do you think the environmental benefits of using MTOW would be?

MTOW would have a number of advantages compared to the present APD arrangements. It would encourage airlines to achieve higher passenger load factors per aircraft – both in terms of increasing the number of seats and filling the maximum number of available seats. We

Patron: Terry Waite CBE

Stop Stansted Expansion is a working group of the North West Essex and East Herts Preservation Association

expect that it would encourage the use of lightweight materials allowing more seats per aircraft for the same MTOW. In some areas (e.g. airframe) the use of lighter materials could only be achieved in the medium-long term but in other areas (e.g. cabin fittings and fixtures) there may be scope for some quick wins.

We believe that the objective of making most efficient use of the available MTOW would also encourage airlines to reconsider some of the frills presently provided on board and may even encourage them to re-examine the inefficient (from an environmental standpoint) practice of on board duty free sales and to re-examine luggage allowances and charges. There is of course an environmental cost attached to excess baggage and it would make sense for this to be reflected in the cost of travel. A duty per plane scheme would also have the advantage of discouraging the 'ghost' flights which operate from time to time simply to retain slots.

Example:

One of our members took a charter flight from Gatwick to the US in a Boeing 747-400 with 520 seats and which, like many charter flights, was completely full. The total APD revenue was £10,400. Meanwhile EOS offers premium single class flights from Stansted to the US in Boeing 757-200 aircraft with just 48 seats of which, on average, only 30 are filled per trip (62% load factor) generating APD of £1,200. Although a 747-400 uses about 90% more fuel than a 757-200 on a trip from London to New York, the duty differential is clearly anomalous from an environmental standpoint and clearly regressive from a taxation standpoint.

** The 2008 Finance Act finally removed the anomaly whereby premium single class flights were taxed at the reduced rate of APD. Prior to April 2008, EOS passengers paid only £20 APD – i.e. an average of £600 in duty revenue for each flight from London to New York.*

A duty per plane scheme would also bring freight aircraft into the scope of aviation taxation for the first time. If the environmental cost is to be reflected, air freight should be included in the aviation duty regime. MTOW also has the advantage of simplicity – whereby mixed passenger and freight operations would not require any special treatment.

Q4. How well do you think that using MTOW as the basis for the duty helps the Government achieve its objectives?

Whether the Government achieves its objectives (and by this we assume its environmental objectives for aviation) very much depends on the rates of duty, which we note are outwith the scope of this consultation. However, as a principle, we believe that an MTOW basis for aviation duty provides a suitable platform for taking forward the Government's environmental objectives for aviation – far more so than the current APD system or any of the other options for change.

Q5 to Q8. NO_x emissions in the landing and take-off cycle:

We believe that any NO_x-based option (whether based on the LTO cycle or on total flight emissions) would be plagued by disputes over the technical performance of aircraft engines and the appropriate scientific evidence. Even a banding system would be open to endless challenges arising from the lack of robust data. An MTOW-based approach has such clear advantages over an NO_x approach that we do not wish to spend time commenting on the details of possible NO_x options. We therefore have no comments on questions 5 to 8.

Q9 & Q10. CO₂ emissions in the landing and take-off cycle:

Our views on CO₂-based options are much the same as our views on NO_x-based options. In addition we suspect that any CO₂-based option would be susceptible to legal challenge. We therefore have no comment to make on questions 9-10.

Q11. Is there another aircraft measure that would be better for aviation duty than the three options described above?

We cannot think of one.

Q12. [How could] the new aviation duty could play a role in covering other environmental costs as well as incentivise airlines to use quieter aircraft?

Our response to this question starts on a cautionary note. When APD was introduced in 1993 it was justified by the then Chancellor on the grounds that air travel was under-taxed compared to other sectors of the economy.¹ If the new aviation duty were to be aimed at 'covering' aviation's environmental costs, this might limit the flexibility of HMT to alter the rate of duty in the future because the aviation industry would be vociferous in arguing that it was already meeting its environmental obligations in full.

There is of course also a requirement to raise taxes in order to pay for general Government expenditure for example on education, health services and defence. Taxes also provide the Government with a lever for influencing consumer and industry behaviour. Thus it may not be enough to set aviation duty at a rate which merely 'covers' its environmental costs. If this principle were to be applied to road transport, then the amount of duty and tax collected from road users would be considerably less than it is today.

Subject to the above caveat, there is merit in varying the level of aviation duty according to the noisiness of the aircraft. For the purpose of seeking to limit night noise at Heathrow, Gatwick and Stansted airports, the Department for Transport ('DfT') uses a quota count ('QC') rating according to the noisiness of each type of aircraft. This is classified separately for landing and take off but these could be averaged so as to simplify matters for aviation duty purposes. The data used are the noise certification data and aircraft are required to possess a noise certificate demonstrating their compliance with the appropriate ICAO noise certification standards and are therefore readily available in almost all cases.

Assessing the environmental cost of aircraft noise is a challenging but not impossible task. The best information we have on this to date is contained within the ANASE study² whose findings have not been well received by the DfT because the study shows that aircraft noise nuisance is a far more significant issue than the DfT has so far been prepared to accept.

We would support the inclusion of the environmental cost of aircraft noise within the new aviation duty provided the duty was set at a level which genuinely covered this cost. And in setting the level of aviation duty, it is essential not only to include the full environmental costs of air travel but also to have regard to: (a) the need for the aviation industry to make a fair and proportionate contribution to the public purse; (b) the anomalous fuel duty and VAT exemptions enjoyed by the industry; and (c) the role that taxation can play in encouraging behavioural change in line with Government policies to reduce the need to travel, tackle climate change and to achieve sustainable development.

Finally, on this point, we believe that it could confuse and over-complicate matters to seek to incorporate a noise factor within the new aviation duty at the outset. It may be more sensible for the Government to serve 2-3 years notice of its intention to apply a noise factor, allowing time for the new duty per plane scheme an opportunity to settle down.

Q13. Do you agree that [distance] banding is the most appropriate measure?

Yes

¹ Kenneth Clarke, Budget speech, 30 November 2003, Hansard column 934.

² 'Attitudes to Noise from Aviation Sources in England', DfT, Oct 2007.

Q14. Do you agree with the banding system that the Government has suggested?

We would suggest four bands, as follows: (NB: nautical miles not statute miles)

- Band A = EEA area;
- Band B = Less than 2,500 nautical miles from London (non-EEA destinations);
- Band C = More than 2,500 nautical miles from London but less than 5,000 miles;
- Band D = More than 5,000 nautical miles from London.

Our rationale in suggesting the above slight modification to your proposal is to ensure that all transatlantic flights (to North America) are within the same band (C) and also to provide for greater differentiation between transatlantic and other long haul flights (of longer distance).

Q15. How well does a banded approach to distance achieve environmental objectives, given the need to avoid a perverse incentive to fly via intermediate hubs?

In our view the price advantage of using a continental hub would need to be very substantial before it would incentivise a significant number of passengers to adjust their travel plans for tax reasons. If such a situation were to arise on any significant scale we expect that, in the short term, UK-based airlines would develop fare incentives to counter this. At the same time they would no doubt lobby for an early change in the duty system to deal with the issue. We believe that it would be easier to deal with this matter (if it arose) on an ex-post basis in the light of actual experience rather than speculating about what might happen. HMT could make clear from the outset that it would give sympathetic consideration to finessing the new duty if evidence of unintended consequences emerged.

Q16. What are the possible distortions/problems caused by using distance?

We assume that this question means 'using distance ... as opposed to banding'. In general the use of distance would align duty more closely to emissions than would be the case with banding. However, fuel consumption during the LTO cycle is disproportionately high and so long haul flights would be treated unfairly as compared to short haul flights if duty were to be directly proportional to distance travelled (ceteris paribus). It may also be argued that more sustainable transport alternatives exist for a short haul flight but this is not the case with long haul. A banding approach provides a more flexible platform to take a rounded (rather than mechanistic) view of the appropriate duty differentials for flights of different distances.

Q17. What would the advantages/disadvantages of using great circle distance be?

Great circle distances are generally more accurate but aircraft rarely follow the shortest great circle route due to weather conditions, ATC routing requirements etc. There could also be the risk of aviation duty being factored into the calculation of the least cost route plan and having the opposite effect of its intention, i.e. resulting in a less efficient route plan in terms of fuel usage. The banding should however be based on great circle distances.

Q18. How would you combine distance with other criteria?

A straightforward multiplier of MTOW would be the simplest approach if actual miles were used as the basis for reflecting distance. However, if a banded approach to distance were to be adopted (as we suggest) a more pragmatic basis for reflecting distance could be adopted.

At its simplest this might be: [NB nautical miles not statute miles]

Band A (EEA)	= standard rate of duty
Band B (non EEA, < 2,500 nautical miles)	= standard rate x 2
Band C (2,500 nautical miles to 5,000 nautical miles)	= standard rate x 3
Band D (>5,000 nautical miles)	= standard rate x 4

Q19. Are there other alternatives for including a distance factor, not already covered?

We cannot think of a better alternative to a banding system such as the above.

Q20. Do you agree that a de minimis limit based on the weight of an aircraft [is] a suitable measure?

Yes

Q21. Is 5.7 tonnes a suitable level at which to set a de minimis limit?

Yes

Q22. Is there an alternative measure that you feel is more appropriate?

No

Q23. Can you suggest an alternative way in which to ensure that aviation is captured either by aviation duty or fuel duty while minimising administrative burdens and complying with international law?

Fuel duty, at current rates, does not cover the environmental costs of general aviation, even leaving aside the need for aviation to make a fair and proportionate contribution to the public purse. And if there is logic in describing 4x4 motor cars as 'gas guzzlers' and subjecting them to particularly high rates of tax, the same logic should apply to general aviation. There is certainly no case for VAT exemptions for general aviation and consideration should also be given to a 'showroom' tax on new aircraft of less than 5.7 tonnes. The aircraft's 'normal place of residency' would perhaps require to be the basis of eligibility for the showroom tax so as to avoid the loophole of overseas purchases of aircraft of less than 5.7 tonnes.

Additional arguments for removing the VAT exemptions and introducing a showroom tax for aircraft of less than 5.7 tonnes include the need to encourage behavioural change and the general principle of fairness that should apply to taxation.

The problem of climate change cannot be solved without behavioural change and the use of small aircraft – whether for business or pleasure purposes – is not in our view something which should qualify for tax exemptions. Both the carbon impact and the value of the VAT exemptions in respect of aircraft of less than 5.7 tonnes in weight may be relatively small but we consider it symbolically important to address this issue. We fully accept that it would be administratively expensive to apply the new aviation duty to very small aircraft. Hence our suggestion of removing the VAT exemptions and introducing a showroom tax.

With regard to the issue of fairness, our point is a similar one. If an ordinary family's annual summer holiday is to be subject to higher tax to reflect the environmental cost of flying, how can one justify an exemption for wealthy individuals and wealthy corporations?

Q24. Do you agree that all helicopters should be placed within the fuel duty regime rather than the aviation duty regime?

Yes – and subject to their being treated as aircraft of less than 5.7 tonnes and subject to VAT and a showroom tax, as above.

Q25. Do you think that there is a strong case for any of the exemptions listed above?

Highlands and Islands – We have no strong view on this. We accept that there may be overriding social considerations which justify such an exemption. The issue should be decided on the balance of evidence presented.

Emergency services – Yes

Public services – Yes

Training flights – No

- Training flights are part and parcel of the business of commercial (and non-commercial) flying;
- The environmental impact of aircraft in flight for training purposes is no different from the environmental impact of aircraft carrying fare-paying passengers;
- There is no equivalent exemption for other modes of transport; and
- Exemptions may add to administrative complexity and cost.

Maintenance flights – No

All four of the above reasons for resisting an exemption for training flights apply equally to maintenance flights. In addition, the Consultation Document states that maintenance flights 'will take place in another country if not the UK'. You seem to be suggesting that there would be a loss to the UK economy (in particular, UK aircraft maintenance businesses) if maintenance flights were to be subject to the new aviation duty. We would respectfully suggest that the converse is more likely to be the case. Our understanding is that a number of UK airlines currently use overseas aircraft maintenance facilities, including in Central Europe, for cost saving purposes. A requirement to pay aviation duty on maintenance flights may therefore bring benefits to the UK's aircraft maintenance industry.

Public aerial displays – No

Military aircraft involved in public aerial displays would remain exempt as a result of their general legal exemption and aircraft of less than 5.7 tonnes would also remain exempt. The issue therefore is whether the small number of commercially and privately owned aircraft in excess of 5.7 tonnes MTOW should also be exempt from aviation duty for the purposes of public aerial displays. We can see no reason why they should be exempt. If we are serious about tackling climate change we need to accept that 'business as usual' is not an option; behavioural change is necessary. Aerial displays of large civilian aircraft are likely, in the main, to be for sales demonstration purposes or a part of a paid entertainment event. As such, they constitute a commercial activity and should therefore be liable to the new aviation duty in the normal way. So far as we are aware there are no comparable tax exemptions for other modes of transport when they are used for public display purposes.

Repositioning flights – No

Although referred to in para 2.1.10 of the Consultation Document dealing with possible exemptions, we wish to comment on repositioning flights. The four general reasons we have set out above for resisting an exemption for training flights and maintenance flights apply equally to repositioning flights. At Stansted Airport, there were 6,245 repositioning flights last year and this relatively large number reflects the fact that the low-cost airlines seek to utilise their aircraft to the maximum, scheduling up to four rotations a day. This often results in aircraft having to be repositioned during the night or very early in the morning which from, an environmental standpoint, is obviously unwelcome. In any event repositioning flights should be viewed as part of the price to be paid for intensive utilisation – i.e. a normal business expense – and should not be tax exempt.

Q26. Are there any other categories of flight for which there is a strong case for exemption? If so, how would those exemptions be defined and enforced?

The only other circumstances we can think of where an exemption should apply is in the case of an aircraft requiring to make an emergency unscheduled landing at a UK airport as a result of a safety or security issue. Clearly such emergency landings – or rather the subsequent departures – should not be subject to aviation duty.

Q27. *Would there be a strong environmental case against any of the possible exemptions?*

In most cases, yes, as we have stated in our response to Q25 above.

Q28. *What economic impacts do you think there will be [in applying aviation duty to freight aircraft]?*

Any move towards internalising the environmental costs of aviation, including air freight, would have net economic benefits because it would improve the efficiency of the market and thereby allocate resources more efficiently. At the margin, it would lead to a shift from air freight to sea freight and a reduction in international trade. Both of these impacts would be on a small scale even if the new aviation duty were, as we would propose, set at a level which reflected the full environmental costs of aviation and in addition provided a fair and proportionate contribution to the public purse.

Applying aviation duty to freight aircraft would also help to create a level playing field for the UK horticulture industry. At present overseas growers are able to fly their products into the UK with no duty applied to the air freight cost. However UK growers, who tend to be located in rural areas some distance from the main city markets, pay a very significant duty element as part of the road transport costs of delivering their products to market.

There is an argument that there would be an adverse economic impact upon developing countries if the UK applied duty to air freight costs. We acknowledge that a significant proportion of the horticultural produce arriving in the UK by air is from developing countries but a significant proportion is also from wealthier nations. If it was deemed desirable, for international development policy reasons, to facilitate access to the UK horticulture market for developing countries, targeted exemptions or off-set solutions could be put in place. In short, we believe it is entirely feasible to reconcile the objectives of ensuring fair taxation for aviation and fair access to the UK market for growers in developing countries.

Q29. *What would be the economic impacts on freight-only flights?*

We have largely dealt with this in response to Q28 above. We would add that, using an MTOW basis, mixed passenger and freight operations would not require any special treatment. The duty matrix would have only two parameters – MTOW and the distance band – assuming a noise factor is not applied at the outset.

Q30. *How might freight operators pass the costs through to consumers? How sensitive have consumers been in the past to a change in price?*

We are not qualified to answer this question.

Q31. *What would be the environmental impacts of applying aviation duty to freight?*

Freight aircraft tend to be older and noisier than passenger aircraft of equivalent MTOW and they are more likely to operate during the night. To that extent, a case could be argued for a higher rate of aviation duty for freight aircraft but we accept that this would be problematic to administer and so we do not advocate it.

Our understanding is that modern aircraft (whether freight or passenger) achieve a higher ratio of payload to MTOW. Thus an MTOW-basis for aviation duty should encourage the use of more modern aircraft and thereby bring not only efficiency benefits but also environmental benefits in terms of reduced noise and emissions. And if – as we propose – a noise factor is incorporated in the new aviation duty some 2-3 years after it has been introduced, this would specifically encourage the use of quieter freight aircraft.

The higher the rate of duty the greater will be the encouragement to airlines to switch to more modern, more efficient aircraft with less noise and emissions. Applying aviation duty to freight would also encourage more efficient use of freight aircraft, for example in terms of maximising

payload and discouraging 'empty' return journeys. Of course, the air freight industry already seeks to maximise its utilisation of available capacity in an aircraft but aviation duty would provide an additional spur, and the higher the rate of duty, the sharper the spur.

Q32. What would be the impact on freight hubs and modal transfers of goods from these hubs?

We are not qualified to answer this question.

Q33. Do you have any other comments about the application of aviation duty to freight?

No

Q34. What evidence can you provide about the impact of moving to aviation duty on the provision of transfer services?

In the past the UK aviation industry has argued that applying APD to transfer passengers would damage the UK economy by encouraging passengers to avoid UK hub airports. In particular it is argued that Heathrow would lose out to Schiphol, Frankfurt and Paris CDG. We have seen no evidence from the airline industry to support this assertion, far less to quantify it, and so we regard it as a self serving argument. And even if transfer passengers were to desert Heathrow in droves, we question what the economic loss to the UK would actually be.

In our response to Q15 we argued that the price advantage of using a continental hub would need to be very substantial before it would incentivise a significant number of passengers to adjust their travel plans for tax reasons. Whilst there may be some switching, the impact would in our view be marginal and certainly not enough to justify maintaining the current exemption for transfer passengers when the system changes from duty per passenger to duty per plane. In addition we believe it would be extremely difficult to do so from an administrative standpoint, noting that if it were to be maintained freight carriers would argue for similar arrangements.

Q35. What are the economic and environmental implications of these impacts?

As stated above, we believe the economic implications are negligible. And because we do not believe there would be a significant reduction in the number of transfer passengers we would not anticipate any significant environmental implications arising directly from the inclusion of transfer passengers in the scope of the new duty. If however there were to be a significant reduction in transfer passengers there would be environmental benefits in terms of fewer flights to and from UK airports, particularly Heathrow, and there would be little or no economic price to pay for this because transfer passengers deliver no significant economic benefits to the UK.

Q36. How might airlines change their business model in response to this design of the duty?

This very much depends on the rate of duty. Higher rates of duty would impact the overall demand for air travel and may encourage more point-to-point services including more direct international flights from UK regional airports at the expense of Heathrow hub-and-spoke operations. Airlines may also introduce differential fares to protect their transfer traffic volumes.

Q37. How might passenger behaviour be affected? How sensitive have consumers been in the past to a change in price?

The DfT makes the broad assumption that the price elasticity of demand for UK air travel is, on average, about -1 .³ The DfT's estimate was based on a 1999 study by economic consultants Oxford Economic Forecasting ('OEF') which included the following table:

³ 'The Future of Air Transport in the United Kingdom: South East', DfT, Feb 2003 (Rev. Ed.).

Price elasticity of demand	High estimate	Low estimate	OEF*
Business	-1.2	-0.4	-0.7
Leisure	-2.7	-1.1	-1.5

* Source: 'The Contribution of the Aviation Industry to the UK Economy', OEF, Nov 1999.

The low cost airlines argue that their sector of the market is subject to higher price elasticity than the above OEF estimates and can be as high as -4 in relation to short leisure breaks and higher still where the customer is flexible as to the choice of destination and day/time of travel.⁴ A November 2006 report by the CAA⁵ contains useful insights on the price elasticity of demand for the low cost sector and points to the shortcomings of trying to portray price elasticity as a simple numerical average.

Although there are different views on the degree of price elasticity in the market for air travel there is a general consensus that business travel is much less price sensitive than leisure travel and discretionary short leisure breaks represent the most price sensitive sector of the market.

The evidence therefore suggests that higher air fares would have least impact on business travel and most impact upon cheap leisure flights. The impact of an increase in air fares also needs to be viewed in the context of strong underlying demand growth noting, for example, that the market has grown strongly over the past five years despite a quadrupling in the price of oil.

Q38. What, if any, specific routes would be affected?

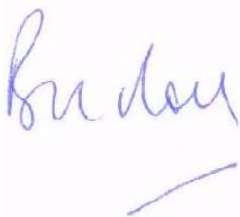
We are not qualified to answer this question

Q39 to Q49. Administration of per plane duty:

These questions relate to the practicality of arrangements for reporting and collecting the new aviation duty and are therefore matters for aircraft operators. We have no comments to make.

We hope our response is helpful.

Yours faithfully



for Stop Stansted Expansion

⁴ Evidence provided to Stansted G1 Public Inquiry by Louise Congon, York Aviation, on behalf Stansted Airlines Consultative Committee, Transcript 10 July 2007, p63 et seq.

⁵ 'No-frills Carriers: Revolution or Evolution?', CAA, Nov 2006.