Submission
to the
Environmental Audit Committee

Sustainable Tourism

September 2019

Stop Stansted Expansion ('SSE') was established in 2002 in response to Government proposals for major expansion at Stansted Airport. We have some 7,500 members and registered online supporters including 150 parish and town councils and local residents' groups and national and local environmental organisations. Our objective is to contain the development of Stansted Airport within tight limits that are truly sustainable and, in this way, to protect the quality of life of residents over wide areas of Cambridgeshire, Essex, Hertfordshire and Suffolk, to preserve our heritage and to protect the natural environment.

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STOP STANSTED EXPANSION

"Where should the balance lie between affordable travel and influencing sustainable travel choices? Are taxes and incentives needed?"

SYNOPSIS

The UK deficit on international air travel[1] ("the tourism deficit") increased from £3.5bn in 1997 to £25.5bn in 2018[2]. This trend is not sustainable. Outward tourism outweighs inward by a factor of more than two to one and the tourism deficit now stands at 1.2% of UK GDP. The imbalance is far greater in UK regions because London is the predominant destination for inward tourism. Aviation tax exemptions artificially inflate the demand for air travel and also distort competition to the disadvantage of domestic tourism. Addressing aviation tax exemptions would contribute to the objective of sustainable development[3] in all three of its elements, namely economic, social and environmental.

1. Introduction

1.1 The National Planning Policy Framework ('NPPF') sets down three overarching objectives for sustainable development, namely:

- Economic – to help build a strong, responsive and competitive economy;
- Social – to support strong, vibrant and healthy communities; and
- Environmental – to contribute to protecting and enhancing the environment.

1.2 Whilst the NPPF, by definition, relates to the planning system, the three-pronged approach for assessing sustainability – i.e. considering economic, social and environmental impacts – is widely applicable, including to the sustainable development of the tourism sector.

Key facts

1.3 The air transport industry provides about 131,000 UK jobs[4] and, in 2017, contributed £19.3bn GVA to the UK economy, of which £15.9bn[5] was derived from the passenger air transport sector, equivalent to 0.9% of UK GVA[6]. By comparison, tourism provides 1.24m UK jobs[7] (almost ten times more than the air transport industry) and, in 2017, contributed an estimated £70bn GVA to the UK economy (four times more than the passenger air transport industry), accounting for 3.9% of UK GVA[8]. Domestic tourism expenditure is almost five times greater than the expenditure in the UK by overseas visitors[9].

1.4 It is no accolade that the UK ranks third behind the USA and China for CO_2 emissions from passenger air travel[10] and accounts for 6.5% of global air passengers[11] despite having less than 1.0% of the world's population. Moreover, just 9.0% of international flights by UK residents are for business purposes, down from 18% twenty years ago[12]. These statistics,

[1] Excludes international journeys by ferry/tunnel and across the Irish border.
[2] Provisional figure subject to confirmation upon publication of 2018 trade balance (Pink Book) statistics by ONS.
[3] UN Resolution 42/187 defines sustainable development as "meeting the needs of the present without compromising the ability of future generations to meet their own needs".
[4] Based on the ONS measure of Full Time Equivalent ('FTE') jobs.
[5] Annual Business Survey 2017 ('ABS'), ONS, Section H: Transportation & Storage (SICs 51 & 52.23).
[6] Gross Value Added (GVA) time series data, ONS – based on UK GVA of £1,826bn in 2017.
[7] Based on the ONS measure of Full Time Equivalent ('FTE') jobs.
[8] UK Tourism Satellite Account ('TSA'), 2016 (latest available data) adjusted to 2017 prices.
[9] Ibid. The 2016 TSA shows £126bn domestic tourism expenditure compared to £26bn by foreign visitors to the UK.
[10] CO2 emissions from commercial aviation, 2018, International Council on Clean Transportation, Working Paper. 2019-16, Graver B, Zhang K and Rutherford D, Sep 2019.
[11] In 2018, UK airports handled 292m passengers out of a global total of 4.5bn air passengers.
[12] Travel Trends, ONS, Table 3.07, 2018 (5.4m business of 60.6m total) v 1998 (6.1m business of 34.3m total).

taken together, help to explain why the UK has been dubbed "a nation of holidaymakers".

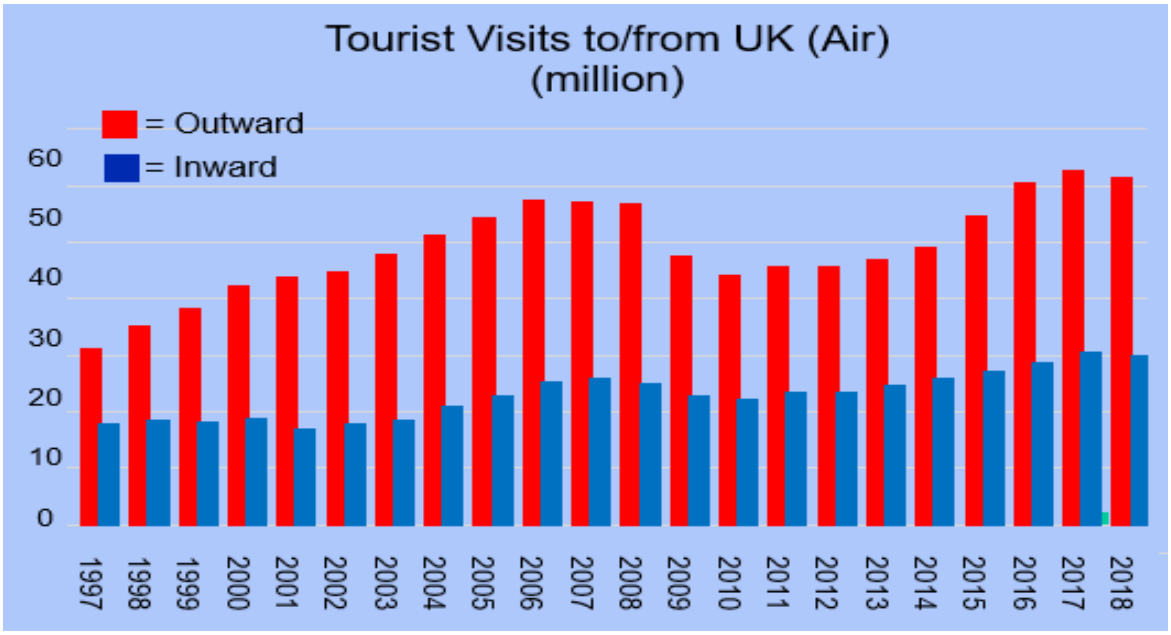
2. Towards Sustainability

2.1 The rate of growth in the demand for air travel exceeds the industry's ability to find technological solutions to reduce its environmental impacts and is unsustainable not only environmentally but also – as explained below – from an economic standpoint.

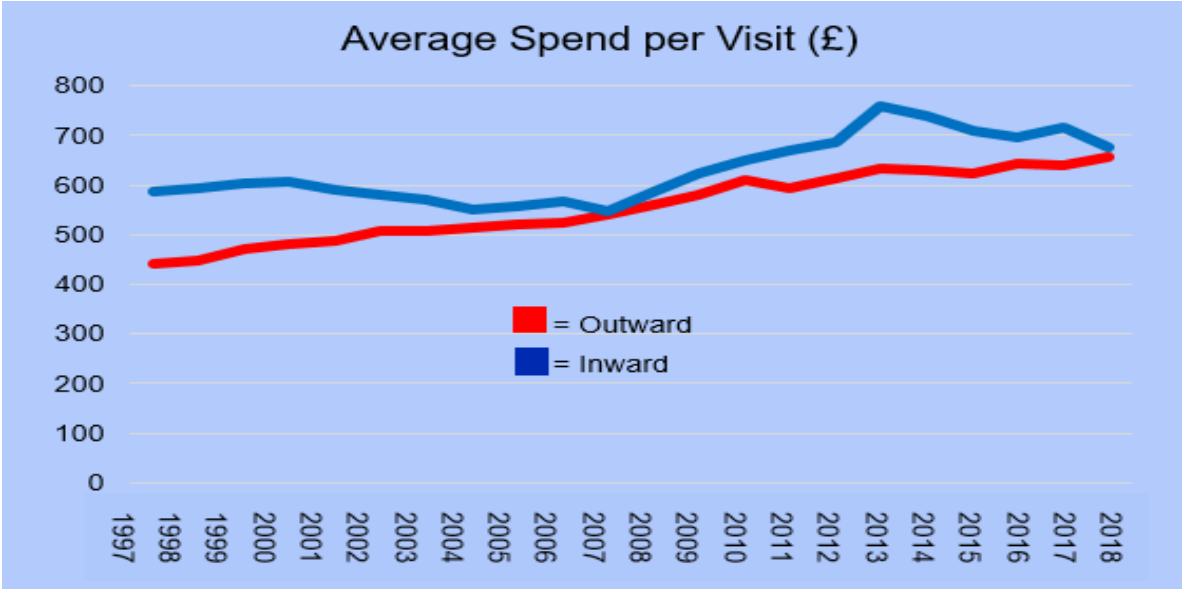
2.2 Whilst it is not a realistic policy option to seek to prevent people from taking holidays abroad, there is no logic in a Government policy which subsidises air travel through tax exemptions and thereby exacerbates its adverse environmental and economic impacts. Addressing aviation's tax exemptions would make a major contribution towards improving the sustainability of the sector as well as having a positive impact on the UK economy.

3. The Tourism Imbalance

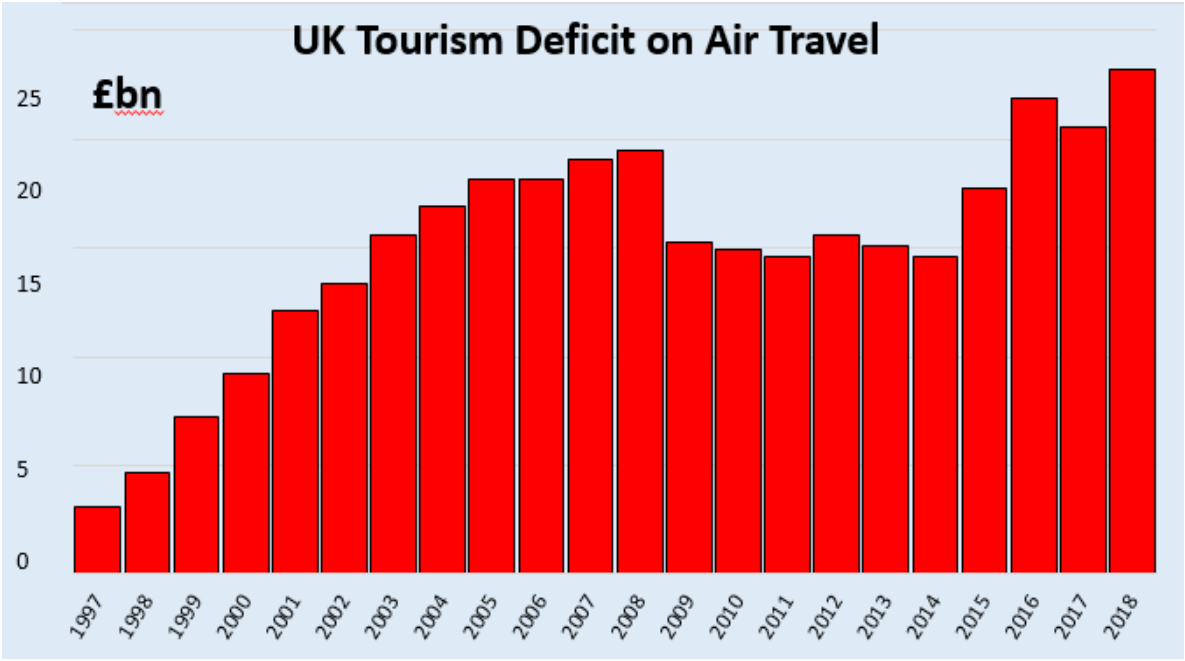
3.1 In 2018, UK residents made 60.6m overseas visits by air – the vast majority of these being leisure trips whilst overseas residents made 29.1m visits by air to the UK. The ratio of about two outward visits to each inward visit has been broadly unchanged for 20 years.



3.2 At one time overseas visitors to the UK spent significantly more per visit than UK residents spent on overseas visits. However, the position now is that UK tourists spend as much per visit abroad, as overseas tourists spend per visit to the UK.


Average Spend per Visit (£)
800
700
600
500
400
300
200
100
0
= Outward
= Inward
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018

3.3 The ONS Pink Book, which is the definitive data source for the UK Balance of Payments, reports annual expenditure for outward tourism (imports) and inward tourism (exports) but these figures only include expenditure during visits. An additional component is the expenditure by UK residents on buying air tickets from foreign airlines (imports) less the amount spent by foreign residents on buying air tickets from UK airlines (exports). Until the late 1990s the UK posted a trade surplus in this area but there has since been an annual deficit which has averaged almost £3.0bn over the past five years[13]. Overall, the UK tourism deficit has grown from £3.5bn in 1997 to £25.5bn in 2018.



3.4 An annual tourism deficit of £25.5bn – and growing – is too significant to be disregarded in the weighing of policy options for the future sustainable development of the UK aviation sector, particularly since it is an underlying long-term issue.

3.5 Referring once again to the three elements of sustainable development – economic, social and environmental – whilst there may be social benefits arising from the Government's policy support for the unfettered expansion of air travel[14] these are significantly outweighed by negative economic and environmental impacts.

3.6 A contrasting picture would be the case of a 'sunshine island' in the Caribbean, where there would be the prospect of significant economic and social benefits from expanding the island's airports. There would also, of course, be adverse environmental impacts but the economic and social benefits of developing the tourism business on this notional sunshine island, and facilitating the export of its tropical fruits, would be difficult for any government to resist, and would doubtless be described as sustainable development – in satisfying two out of the three overarching objectives.

3.7 In the case of the UK, however, there are adverse economic impacts as well as adverse environmental impacts in expanding international tourism. Continuing to give favourable tax treatment to the aviation sector, and supporting whatever airport expansion may be needed to meet the unconstrained demand for air travel, cannot be reconciled with the objective of sustainable development, nor reconciled with the Government's commitment to net zero carbon emissions by 2050. Accordingly, there is a clear case for addressing the favourable tax treatment given to the aviation sector, the effect of which is to artificially inflate the demand for air travel and obstruct the objective of sustainable development.

[13] The Pink Book (UK Balance of Payments), ONS, Section 3.2 – Air Transport: Passenger Revenue.
[14] As set down in the 'Airports National Policy Statement', DfT, Jun 2018 and 'Beyond the horizon: Making best use of existing runways', DfT, Jun 2018.

4. Regional Analysis

4.1 The UK tourism deficit is even more pronounced at a regional level because the South East dominates the market for inward tourism. Out of a total of £22.9bn spent by overseas tourists in the UK in 2018, £15.1bn (66%) was spent in the South East whereas just £3.6bn (16%) was spent by foreign tourists in the Midlands and the North of England combined.

Figure 4.1: Regional Analysis

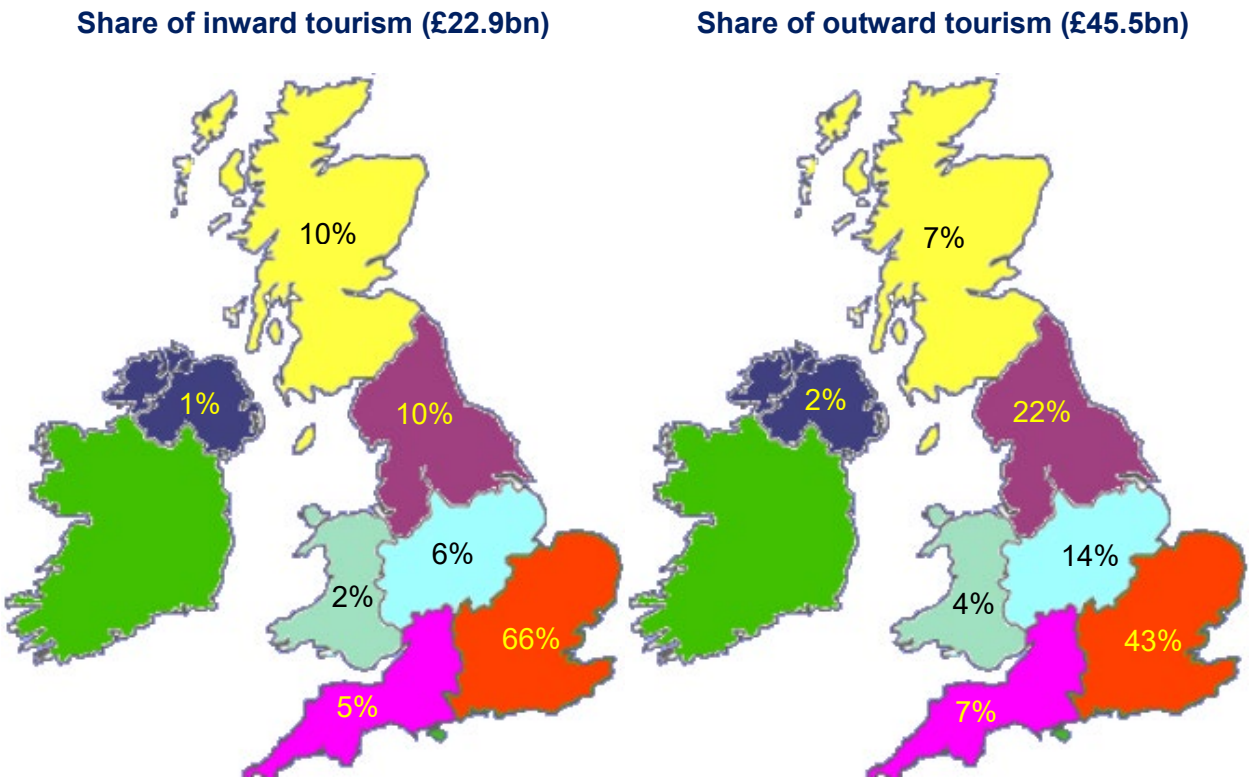


Table 4.1: Tourism Deficit 2018 – Regional Breakdown

	Inward Tourism Spend (£bn)	Outward Tourism Spend (£bn)	Deficit (£bn)
South East*	15.1	19.5	4.4
South West	1.1	3.2	2.1
Midlands	1.4	6.3	4.9
North	2.2	10.0	7.8
Scotland	2.2	3.0	0.8
Wales	0.4	1.7	1.3
Northern Ireland	0.2	1.0	0.8
Other/adjustments**	0.3	0.8	0.5
Total Tourism	**22.9**	**45.5**	**22.6**
Air tickets***	6.9	9.8	2.9
Total UK Deficit	**29.8**	**55.2**	**25.5**

*Source: International Passenger Survey, Travel Trends 2018, ONS. *Includes London and East of England. **Comprises Channel Isles, Isle of Man and unallocated. ***Average 2013-2017 (Data not yet available for 2018). Totals may not add due to rounding.*

4.2 It can be seen from the analysis set out in Figure 4.1 and Table 4.1 above that the tourism deficit is most pronounced in the Midlands and the North of England where the net outflow in 2018 was £12.7bn. For every £1 spent by overseas visitors to the Midlands and the North of England, local residents spent £4.50 overseas.

5. Economic & Employment Impacts

5.1 The tourism sector directly provides 1.2m FTE[15] jobs in the UK based on domestic tourism expenditure of £126bn and inward tourism expenditure of £26bn[16]. On a proportional basis, this means that domestic tourism generates 1.0m UK jobs and inward tourism 200,000 jobs. Referring back to Figure 4.1 above, it can be further estimated that 130,000 of the 200,000 jobs generated by overseas visitors are in the South East.

5.2 Research commissioned by the Department for Transport ("DfT") indicates that the price elasticity of leisure air travel is –0.7 for both inward and outward[17]. Thus, an increase in the price of air travel of (say) 10% would result in a 7% decline in demand. The resultant drop in inward tourism would mean the loss of 14,000 UK jobs [200,000 x 7%] of which about 9,000 would be in the South East and 5,000 in the rest of the UK.

5.3 Outward tourism would also decline by 7%, which would mean 6m fewer overseas visits by UK residents, a £2bn improvement in the trade deficit and a £4bn reduction in overseas spending by UK residents. It would only require about half of this sum to be diverted to the domestic economy in order to neutralise the impact on UK jobs and GDP. The likelihood is that considerably more than half this sum would be diverted to spending on alternative goods and services in the UK[18], thereby providing a boost to GDP (and to VAT receipts), particularly at regional level where there is less to lose and more to gain.

5.4 Adverse economic and employment impacts would mainly be felt in overseas tourism destinations which have been the main beneficiaries of the rapid growth in UK visitors since the advent of cheap air travel. A growing UK tourism deficit leads to the export of jobs and investment overseas. Conversely, reducing the tourism deficit would create new opportunities for UK jobs and investment. Increasing the price of air travel would therefore deliver significant benefits for the UK economy. These benefits will be even greater if the price increase is achieved through an increase in taxation, thereby generating revenues for the public purse which could be invested in other areas of the economy.

6. Other Impacts

6.1 Dampening the demand for air travel would also bring significant local and global environmental benefits which would contribute towards the objective of sustainable development. The Committee on Climate Change ("CCC") has recently recommended[19] that the growth in air travel should be limited to 25% by 2050 compared to 2018. This would mean a 2050 cap of 365m passengers, compared to the 292m passengers recorded in 2018. However, as matters currently stand, the DfT is planning for a 49% increase in passenger numbers by 2050, to 435m.

6.2 Based on price elasticity of -0.7, it would require a 23% real terms increase in the price of air travel to contain demand to 365m rather than 435m passengers, i.e. a reduction of 16%. This would deliver a saving of about 6.2m tonnes of aviation CO_2 emissions[20].

6.3 There would, however, be some adverse social impacts by making overseas holidays less affordable but there are options for reforming Air Passenger Duty ("APD") which could mitigate these, noting that only a relatively small number of people account for the great majority of flights (see table 6.1 below).

[15] Full Time Equivalent ('FTE') jobs.
[16] Tourism Satellite Account ('TSA'), 2016, Office of National Statistics ('ONS').
[17] 'UK Aviation Forecasts', DfT, Oct 2017, para 2.18.
[18] That is not to suggest that overseas leisure trips would be replaced by 'staycations', although there is evidence of that happening in the past, based on price considerations (GBTS, ABTA and Visit London).
[19] 'Letter to Secretary of State for Transport: International aviation and shipping and net zero', CCC, Sep 2019.
[20] Based on a saving of 16% (23% x 0.7) on aviation CO_2 emissions of 39m tonnes.

Table 6.1: Number of flights abroad in last 12 months: England (% of sample)

Number of flights	*2014*	*2015*	*2016*	*2017*	*2018*
None	54	53	52	50	48
One	23	24	24	23	24
Two	11	12	12	14	13
Three	5	5	5	6	6
Four or more	6	7	7	8	8
All	**100%**	**100%**	**100%**	**100%**	**100%**

Source: National Travel Survey 2018, DfT, Jul 2019.

6.4 Proposals have been put forward for reforming APD by applying higher rates to frequent flyers, whilst seeking to avoid penalising the annual family holiday. As can be seen from the above table, half the population do not take any flights in any given year and a quarter of the population take just one flight per annum. It can also be noted that the average household income for UK leisure passengers in 2018 was £54,000[21] and so it is the relatively affluent who make most use of air travel. What then is the justification for the favourable tax treatment?

7. Air Passenger Duty ("APD")

Historical Context

7.1 APD was introduced in 1994 by Ken Clarke, the then Chancellor of the Exchequer, not as an environmental tax but in recognition of the fact that the aviation industry was lightly taxed compared to other sectors, largely arising from its exemption from fuel duty and VAT. APD was initially set at £5 for short haul economy flights[22].

7.2 In 1997 the rate of APD for short haul[23] economy flights was increased to £10. In 2001 Gordon Brown halved the short haul economy rate of APD and then put it back up to £10 in 2007. Alistair Darling raised it to £11 in 2009. George Osborne increased it to £12 in 2010, and then to £13 in April 2012. It has since been frozen at that level and, in his November 2017 Budget, Philip Hammond announced that the short haul economy rate of APD will continue to be frozen at £13 until (at least) 31 March 2020.

7.3 HMRC statistics[24] show that 78% of air passengers pay the lowest rate of APD. Thus, for four out of five passengers, APD will have increased by just £3 from 1997 to 2020 – a period of 23 years. Nevertheless, ever since the introduction of APD, the aviation industry has lobbied for its abolition, describing it as a 'damaging surcharge' on air tickets. At the same time, airlines have introduced numerous surcharges of their own, including for hold baggage, reserved seating, speedy boarding, reprinting boarding passes etc.

Revenue

7.4 APD raised £3.4bn in 2017 but it would need to raise £11.6bn to offset the value of the industry's exemption from fuel duty and VAT, compared to the level of taxes levied on the road transport industry[25] – see Table 7.1 below:

[21] 'Departing Passenger Survey 2018', CAA, Tables 10.1 – 10.12, weighted average annual income.
[22] APD is payable only on departure from a UK airport and so is payable only on the outward leg of a round trip to an overseas destination but is payable on both legs of a domestic round trip.
[23] 'Short haul' is where the capital city of the final destination country is less than 2,000 miles from London.
[24] HMRC Tax & Duty Bulletin, March 2019.
[25] Road users also pay Vehicle Excise Duty, VAT on car sales, company car tax and insurance premium tax. These taxes and duties amounted to £28bn in 2018 – more than twice what is spent on financing UK roads. (AA estimates).

Table 7.1: Basis for tax parity between air passengers and road users

Key Parameters (2017)	Quantity/Value
Aviation turbine fuel consumed[26]	11.8m tonnes
Convert to Litres[27]	14.8bn litres
Road users fuel duty per litre[28]	57.95p
VAT on fuel per litre[29]	20.50p
Fuel duty + VAT per litre	78.45p
Value of fuel duty and VAT exemptions to UK aviation[30]	£11.6bn
HMRC income from APD[31]	£3.4bn
Shortfall v APD Receipts (£bn)	**£8.2bn**

7.5 It follows from the above that the APD would need to rise to 3.4 times its current level to achieve tax parity between air passengers and road users. This would generate an additional £8.2bn for the public purse which could, for example, be used to fund a £2,500 increase in the personal tax threshold, substantially reducing tax for 31 million people and taking the lowest paid out of income tax[32]. There would also be significant economic and environmental benefits as described in paragraphs 5.1 to 6.2 above.

7.6 APD is often described as a blunt instrument but even in its present form it has a number of merits:

- Revenue raising;
- Demand management; and
- Economic and environmental benefits.

7.7 Moreover, as stated in paragraph 6.3 above there is scope to reform APD in the interests of equity and fairness. The introduction of a 'frequent flyer levy', which has the support of the CCC, could help curb the growing demand for air travel and enable higher levels of APD to be introduced without penalising those who make only moderate use of air travel.

8. Key Recommendation

Our key recommendation is that the Environmental Audit Committee should encourage the DfT to work with the Treasury to develop proposals for reforming APD to make it a more effective and equitable tool for raising revenue, managing demand and delivering economic and environmental benefits.

Stop Stansted Expansion, September 2019

[26] DfT Statistics: Energy & Environment, Table ENV0101 – Petroleum consumption by transport mode and fuel type: https://www.gov.uk/government/statistical-data-sets/energy-and-environment-data-tables-env#fuel-consumption-env01.
[27] UK Government Conversion Factors for GHG Reporting, Fuel Properties tab - density for aviation turbine fuel =1,253 litres/tonne: https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2017.
[28] The fuel duty rate for petrol, diesel, biodiesel and bioethanol has been unchanged since March 2011 at 57.95p per litre: https://www.gov.uk/tax-on-shopping/fuel-duty.
[29] Based on an average pump price of £1.23 per litre and VAT rate of 20% - i.e. Price per litre = 102.5p + 20.5p VAT.
[30] Aviation turbine fuel consumption of 14.8bn litres x 78.45p per litre = £11.6bn.
[31] APD Bulletin, HMRC, Sep 2018, Table 2: https://www.uktradeinfo.com/Statistics/Pages/TaxAndDutybulletins.aspx.
[32] Based on constant demand at 2017 levels £8.2bn p.a. would be capable of funding a real £2.5k uplift (i.e. above CPI) in personal tax allowances after allowing for savings in benefits. Based on IFS, OBR and HMCR analysis as follows: http://election2015.ifs.org.uk/uploads/publications/bns/BN172.pdf
https://obr.uk/docs/dlm_uploads/Forecast-Evaluation-Report-2018_Web_Accessible.pdf
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/774691/190130_SS19_Direct_effects_of_illustrative_tax_changes_bulletin_FINAL.pdf.