Lowering Air Travel Taxes to Improve Scotland's Connections

Air Passenger Duty (APD) is being devolved to Scotland, and the Scottish Government wants to cut the tax as soon as it can. The Government points to other countries across Europe, such as Ireland, that have cut aviation taxes to attract more flights. However, the applicability of policies applied in other countries to Scotland does not appear to have been studied in any great depth. Ireland has no air/rail competition for inter-city travel.

The Government has proposed a reduction of 50% in the tax, starting in April 2018, with the tax to be completely abolished when resources allow. However, it is not currently clear if this cut would have a greater impact on growing demand for domestic flights or on the viability and future of flights from overseas. Recognising the limited evidence of potential impacts, the Scottish Government's recent consultation called for evidence. The current proposals have relied almost entirely on aviation and tourist industry analysis; including studies by PWC and York Aviation.

CILT's response to the Government consultation noted that the proposed change may have huge implications for taxation revenues, and for transport, that are not currently understood.

Politicians making political commitments do not always consider all of the details that matter for the success of a policy. At the heart of the current controversy is a potential additional black hole of more than £200m per year in the Scottish Government finances from the loss of taxation revenue. The Scottish Tourism Alliance argues that the loss of APD on existing air passengers will be more than made up by a combination of more tax from growth in air passengers, income tax from additional jobs created and savings in benefits paid to unemployed people now able to work. However, if these predictions are not all fulfilled, there will be a net loss of taxation income. The value of tourism to the Scottish economy remains below pre-recession levels so the industry needs new game changing policies, but the optimism about the effects of an APD cut needs to be grounded in evidence.

Transport industry views of an APD change are mixed. Several airlines including Easyjet have announced that they will commence new flights from Scotland and bring more jobs if the tax is cut, but Etihad has stated that an APD change will not affect their plans for Scotland. Virgin Trains wrote to their stakeholders in April encouraging them to consider impacts on rail services in their responses to Scottish Government APD consultation. The rail operator claims that a third of the southbound Edinburgh-London rail market could be lost to air if APD were removed altogether.

Government must be able to look beyond the narrower perspectives of businesses to ensure that the needs of Scotland are met, so the consultation is an important step in ensuring that all voices are heard. CILT considers that taxation is one of the most important levers of transport policy and Scots will only get better connections if better connections are planned. Lower taxes may be needed on some flights but higher taxes may be needed on others. Different taxes for different aims could be straightforward to implement, but only if the socio-economic benefits of aviation are well understood.

The Scottish Council for Development and Industry says that increased internationalisation is essential for stronger growth in the Scottish economy, and global connectivity is key to enabling Scottish businesses to enter and grow in overseas markets. What is not clear, due to the lack of evidence, is whether the 50% cut in APD would make any significant improvement to Scotland's international connectivity. On routes where air serves inelastic travel demands, and where large scale competition is unlikely, the greatest impact could be increased airline profitability. The current well timed announcements from airlines about potentially greater numbers of flights could be highly profitable.

The consultation period for APD policy had barely ended in June this year when the UK's National Audit Office warned that the 2026 opening date for the first (London – Birmingham) section of the UK's High Speed Rail network was at risk, because the project is under financial strain, and could be delayed by a year. In March, Cabinet Secretary for Infrastructure Investment and Cities, Keith Brown welcomed the publication of proposals showing how it might be possible to deliver a three hour journey time from Edinburgh to London linked to the new High Speed Rail network.

Both High Speed Rail and APD proposals need to take better account of the wider transport markets in which they operate. Before making changes, an accurate understanding of consumer behaviour and investment impacts is an essential prerequisite.

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