Unite response to HM Treasury consultation on aviation duty

1 Summary

1.1 This response is submitted by Unite the Union, the UK's largest trade union with 1.5 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, transport, local government, education, health and not for profit sectors. The Civil Air Transport (CAT) membership of Unite is currently the largest representative group of workers employed within the aviation industry.

1.2 The union's current membership includes 80,000 members working within Civil Aviation and, in addition, Unite represents 52,000 members in the aerospace industry. Unite also represents 20,000 members in bulk freight transport who will be directly affected by these proposals and another 11,000 members who work as managers within Royal Mail and other organisations in the postal sector.

2 APD places the UK at a disadvantage

2.1 Unite is not opposed to a tax on aviation emissions but believes that the change in methodology employed in this case is not addressing the question over the damage done to the UK as a result of this tax's continued heavy burden in a climate where a much more environmentally effective levy is being imposed from 1 January 2012.

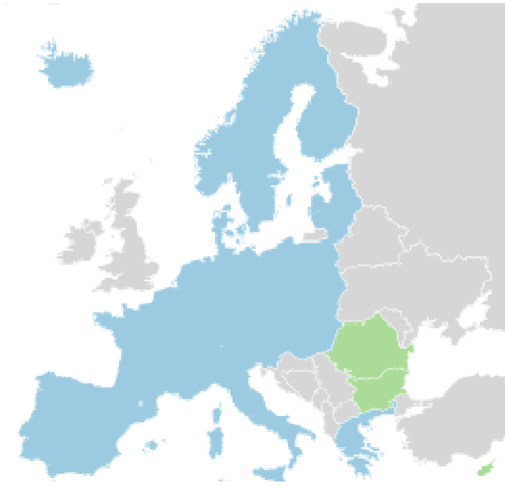
2.2 The European Emission Trading Scheme's (EU ETS) inclusion of aviation will not only lead to an increased burden on aviation but will drive up the price of carbon encouraging carbon reductions in other industries. The scheme also supports the development of more environmentally friendly working practices and equipment whilst not upsetting the aviation market in Europe.

2.3 Due to the significant increases in the price of aviation fuel recently, many airlines have been forced to add a fuel surcharge onto the price of tickets. The effect of the exchange rate is making matters worse, unbalancing the competitive position of the UK's aviation industry still further.

2.4 In addition, there are moves by the European Commission to attempt a harmonisation of Value Added Tax (VAT) across Europe. In the green paper, the Commission suggests that VAT should be harmonised across all forms of public transport regardless of mode. In the worst case scenario, VAT may be applied as it is currently in France, at a rate of 19% on the ticket price. Such an increase combined with the added burden of the EU ETS, fuel costs and APD would severly damage the industry.

2.5 Visitors to the UK currently face a £75 visitors visa cost placing a considerable additional barrier to UK tourism. Visitors to Schengen countries[1] of Europe by contrast can pay between €35 and €60 (£52.20) which covers them for short holidays in Europe and on business trips etc.

2.6 Most of these countries do not charge any form of aviation tax, providing their nation with a market advantage over the UK, both in terms of tourism and business investment potential.



Map of the 25 states covered by the Schengen agreement

2.7 In 2008 the Netherlands introduced a tax on aviation which aimed to raise just €370 million in additional revenue for the Government. In the year that followed, Schiphol witnessed an 8% decline in passenger numbers and losses to the nation's income amounting to around €1.3 billion. Due to the lack of any restrictions or physical cost of crossing a border, the Dutch simply crossed the border and used flights out of Brussels and other neighbouring countries instead. As a consequence of the losses the tax was scrapped a year later.

2.8 As an island nation we are not able to simply cross national borders to access cheaper flights elsewhere. The exception to this is Northern Ireland. Recently the Irish government decided to scrap its €10 rate of aviation taxation and instead applied the €3 rate to all flights. The result is a significant reduction in the level of taxation on flights from Dublin as opposed to those out of Belfast's two airports. Although it is not always cheaper to fly to every destination (due to the relative numbers flying) flights can be over £375 cheaper per passenger if taken from Dublin than from a Belfast airport[2].

3 Business jets

3.1 Unite believes that it is about time business jets started paying an aviation tax equal to every other passenger flying from the UK. Unite does not believe that the current loop hole in the application of APD

[1] The Schengen Area currently consists of twenty-five states, who have agreed to operate very much like a single state for international travel with border controls for travellers travelling in and out of the area, but with no internal border controls.

[2] See Appendix 1

can be justified. There is no incentive to fill a business jet to capacity unlike commercial aircraft and hence the emissions per passenger km can result in the business jet passenger producing over ten times the amount of carbon than a passenger in a commercial aircraft[3].

3.2 From this perspective, therefore, Unite would suggests that to make the administration of the tax easier the full rate of APD charged should be charged as if all seats were filled. Such a move would reduce the appeal of business aviation, but encourage greater utilisation of all the seats.

4 Zoning

4.1 Unite believes that the rate of APD should reflect the actual distance flown rather than the distance between capital cities, as opposed to a return to the Europe / 2000 mile two band system. Such a position would remove the ambiguities that occur in any zoned regime. The disadvantage with such a scheme would be the complexity of calculating the distance flown if the flight connects at various hub airports along the way.

4.2 The two band system is far easier to administer but is very much a blunt weapon in the fight against climate change. If the aim is simply to raise capital, then this scheme will fit the bill. A flight between London and Nicosia is marginally over the 2,000 mile limit but would be picked up by membership in the EU/EEA/ECAA. If measured to the capital city, Moscow is just 1,560 miles away and hence the entire country could be covered by the 2,000 miles zone.

4.3 Sochi International Airport in Russia is under 2,000 miles from London but just three miles on the Russian side of its border with Georgia. Such proximity would enable Georgians living in the North Western parts of the country to cross the border and take advantage of cheaper flights home.

4.4 A three band system based on distance to capital cities would retain the discriminatory anomaly which allows passengers who fly to Hawaii to pay less APD than passengers flying to the Caribbean even though they are closer to the UK.

4.5 The problem with any zoning system is one where, unless the country you are flying too is an island nation like the UK, there will always be issues over cross border land journeys on arrival to obtain the cheaper fare, especially if there is a steep increment between the rate applied.

5 Seating class distinction

5.1 Unite believes that the seating class distinction is currently a bit of an anomaly. Passengers flying in economy plus seating can be sat in a chair which is smaller with less leg room than a passenger on an

[3] http://micpohling.wordpress.com/2007/05/08/math-how-much-co2-released-by-aeroplane/

economy ticket on a rival airline[4]. Doubling the cost of APD for an extra few centimetres of leg room or width has adversely affected the attraction of economy plus seating.

5.2 In the case of some disabled passengers access to standard seating on some airlines is difficult and hence the upgrade can prove to be a necessity.

5.3 On European Air France Airbus A321 flights there is no improvement in the seating between the three ticket classes and hence the passenger density in these classes remains the same throughout, resulting in a service which maximises the aircraft's capacity reducing the carbon footprint per passenger. By contrast on an Air France Airbus A340-300 the pitch increases from 81cm to 155cm enabling the seats in first class to convert into lay flat beds. Such an excessive seating pitch reduces the available capacity of the aircraft by half in the first class section. Unite believes it is only just that in such a situation these passengers pay twice the APD cost of those in economy.

6 Regional differences

6.1 Unite does not believe that changing the rate of APD depending on the UK region is a good idea. Due to the volumes of passengers travelling, regional airports cannot offer the variety of direct flights and the volumes necessary to reduce the overall cost of a ticket. Regional airports tend to rely on services to hub airports to enable passengers to complete their journey, adding an addition take off and landing cycle to the journey.

6.2 Due to capacity issues at Heathrow the hub airport in question will inevitably be one in mainland Europe requiring the services of short haul aircraft. Such flights do not spend long in cruise and, hence, the period of a flight where the engines are working most efficiently (cruise) is only just entered when the plane begins its approach procedures. The emissions per passenger km on short haul flights are, consequently, that much higher.

6.3 The exception to this rule exists only where there is a large enough local population to produce the volume of passengers required to reduce the price. Manchester and Birmingham are prime examples. Flights out of Birmingham, for example, are often cheaper than flights out of the London airports.

6.4 The key determining factor when looking at what makes a regional airport successful or not is connectivity. In 2008 Durham Tees Valley airport had regular daily connecting flights to Heathrow and attracted some 656,620 passengers. By 2010 this link was lost and the passenger numbers fell by 65.6%. Plymouth has recently announced its closure as a result of the loss of services to London Gatwick despite

[4] http://www.seatguru.com/charts/longhaul_economy.php

being one of the only airports in the UK not to see a significant reduction in passenger numbers.

7 Devolution of APD

7.1 Unite does not believe that devolving APD to Scotland, Northern Ireland and Wales is a good idea as it will create an increase in cross border travel to access cheaper fares. Allowing Scotland to have the right to set its own rate of APD would have the potential to enable airlines flying out of Scottish airports to under cut the price of flights out of Newcastle. This airport has already suffered a major reduction in passenger numbers following the loss of connecting flights to Heathrow.

7.2 Wales has only one major passenger airport in Cardiff which is just 63 miles away from Bristol. Consequently, giving Wales the option of reducing APD below that charged in England would cause serious problems for Bristol airport's viability.

7.3 As shown earlier, there is already a problem with the Government's position on aviation taxation in Northern Ireland. The Republic of Ireland has recently reduced its aviation tax to just €3 per passenger irrespective of destination. Although it is 102 miles by road from Belfast City airport to Dublin airport, there can be significant savings for a family of four[5].

8 State of the aviation industry

8.1 Even before the start of the economic downturn, domestic aviation has been suffering a down turn in passenger numbers[6]. Airports such as Coventry and Plymouth have closed or are in the process of closing, while other regional airports have suffered substantial reductions in flight activity over the last two years[7]. Although most of the blame for this decline can be attributed to the recession and consequent growth in 'stay-cations', the delay in the speed of recovery has not been helped by increases in taxation. Heathrow has not suffered the decline to the same extent, but this can be put down to a very high international demand for slots at the airport which cannot be met under current restrictions. This is clearly illustrated when comparing the top 30 airports over the period from 2008 to 2010[8].

8.2 Unite believes that the Governments plan to find private sector jobs to replace those lost in the public sector is being hampered by the costs associated with travel to the UK as opposed to any other European location and the restrictions placed on capacity.

[5] See Appendix 1
[6] See Appendix 2
[7] See Appendix 3
[8] See Appendix 4

8.3 In August 2010 David Cameron stated "*I want to talk about just how incredibly important I think our tourism industry is and what we need to do now to make the most of it not just here in London but right across our country...We urgently need to advance our trade with the great emerging economies and to increase our exports all over the world…I want to see us in the top five destinations in the world. But that means being much more competitive internationally*"[9]. Unite believes that none of this will be possible in a situation where the Government is charging the highest aviation taxation in the world, with plans to increase this burden further.

8.4 In that same speech the Prime Minister went on to claim that "*We're going to be a government that understands the huge potential of our tourism industry that gets tourism and that gives the industry the backing it needs*". If that is truly the position of this coalition then the Government needs to urgently demonstrate a real commitment to the growth of a sustainable international aviation industry.

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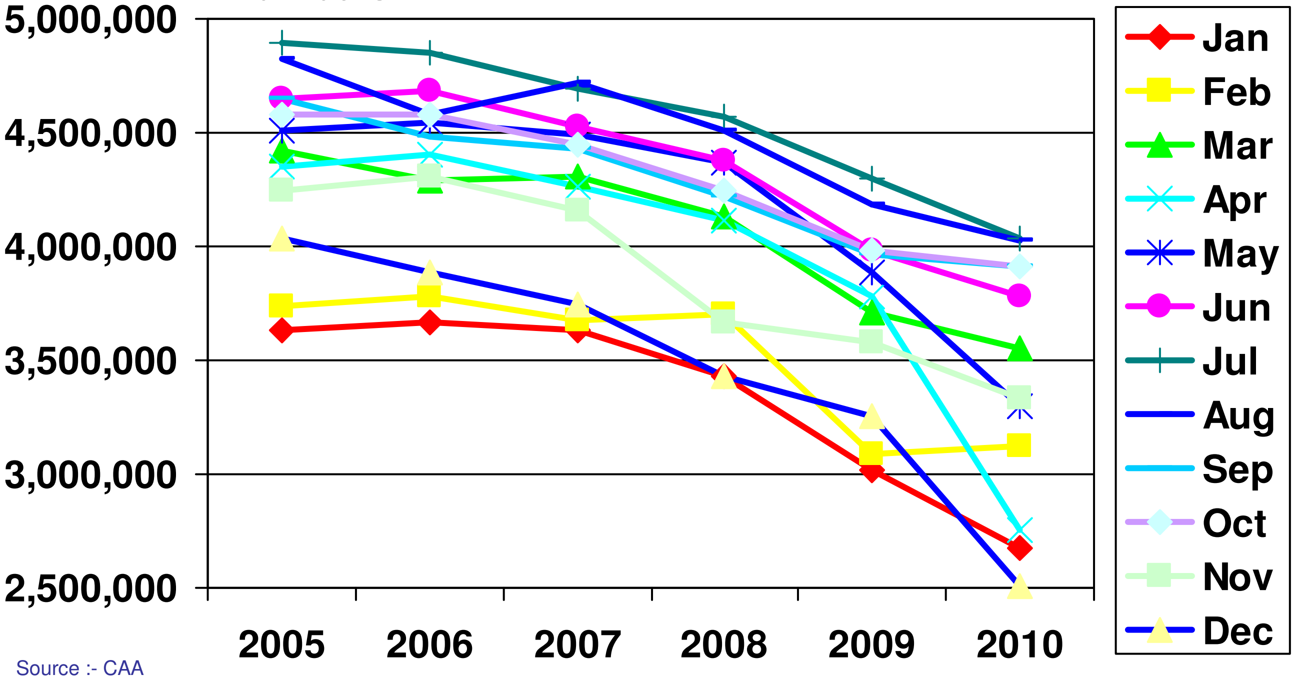
[9] http://www.number10.gov.uk/news/speeches-and-transcripts/2010/08/pms-speech-on-tourism-54479

Appendix 1 - Example prices of fares from Belfast and Dublin

Destination	Taipai	Manila	Kuala Lumpur	Ho Chi Minh City
Belfast	£3,374.80	£2,787.60	£2,818.12	£2,878.60
Dublin	£3,498.80	£2,880.88	£2,493.20	£3,170.60
	£124.00	£93.28	-£324.92	£292.00
Destination	Jakarta	Canberra	Wellington	Mexico City
Belfast	£2,697.56	£4,972.40	£5,183.37	£2,456.40
Dublin	£2,842.00	£3,961.60	£3,677.60	£2,258.80
	£144.44	-£1,010.80	-£1,505.77	-£197.60
Destination	Kingston Jamaica	Nassau	Santo Domingo	Brasilia
Belfast	£3,112.80	£3,111.68	£3,255.48	£3,423.32
Dublin	£2,697.28	£2,810.24	£2,617.68	£2,949.16
	-£415.52	-£301.44	-£637.80	-£474.16
Destination	Buenos Aires	Cape Town	Abu Dhabi	Mumbai
Belfast	£4,283.64	£3,240.84	£2,127.20	£2,185.60
Dublin	£4,197.60	£2,634.80	£1,389.20	£2,043.60
	-£86.04	-£606.04	-£738.00	-£142.00
Destination	New Delhi	Guangzhou	Hong Kong	Beijing
Belfast	£2,108.40	£2,804.32	£2,839.40	£3,000.76
Dublin	£2,132.24	£2,996.80	£2,247.84	£2,241.20
	£23.84	£192.48	-£591.56	-£759.56

All fares are based on a family of four travelling on 1 October returning on 15 October 2011 booked via expedia.co.uk on 26 May 2011.

Appendix 2 - Month on Month Domestic aviation passenger numbers



Source :- CAA

Appendix 3 - Percentage Decline in UK Aviation

Reporting Airport	2010	2009	% change 2010 to 2009	2008	% change 2010 to 2008
HEATHROW	65,881,660	66,036,957	-0.24%	67,054,745	-1.75%
GATWICK	31,375,290	32,392,520	-3.14%	34,205,887	-8.28%
STANSTED	18,573,592	19,957,077	-6.93%	22,360,364	-16.94%
LUTON	8,738,712	9,120,546	-4.19%	10,180,734	-14.16%
LONDON CITY	2,780,582	2,796,890	-0.58%	3,260,236	-14.71%
SOUTHEND[10]	3,583	3,948	-9.25%	44,075	-91.87%
Total London Area	**124,572,837**	***130,307,938***	***-2.27%***	**133,845,805**	**-6.93%**
MANCHESTER	17,759,173	18,724,889	-5.16%	21,218,995	-16.31%
EDINBURGH	8,596,715	9,049,355	-5.00%	9,006,702	-4.55%
BIRMINGHAM	8,572,398	9,102,899	-5.83%	9,627,589	-10.96%
GLASGOW	6,548,865	7,225,021	-9.36%	8,178,891	-19.93%
BRISTOL	5,747,604	5,642,921	1.86%	6,267,114	-8.29%
LIVERPOOL (JOHN LENNON)	5,013,940	4,884,494	2.65%	5,334,152	-6.00%
NEWCASTLE	4,356,130	4,587,883	-5.05%	5,039,993	-13.57%
EAST MIDLANDS INTERNATIONAL	4,113,501	4,658,151	-11.69%	5,620,673	-26.81%
BELFAST INTERNATIONAL	4,016,170	4,546,475	-11.66%	5,262,354	-23.68%
ABERDEEN	2,763,708	2,984,445	-7.40%	3,290,920	-16.02%
LEEDS BRADFORD	2,755,110	2,574,426	7.02%	2,873,321	-4.11%
BELFAST CITY (GEORGE BEST)	2,740,341	2,621,763	4.52%	2,570,742	6.60%
SOUTHAMPTON	1,733,690	1,789,901	-3.14%	1,945,993	-10.91%
PRESTWICK[11]	1,662,744	1,817,727	-8.53%	2,415,755	-31.17%
JERSEY	1,463,221	1,491,424	-1.89%	1,625,660	-9.99%
CARDIFF WALES	1,404,613	1,631,236	-13.89%	1,994,892	-29.59%
GUERNSEY	923,683	937,391	-1.46%	945,580	-2.32%
DONCASTER SHEFFIELD	876,153	835,768	4.83%	968,481	-9.53%
BOURNEMOUTH	751,331	870,754	-13.71%	1,083,446	-30.65%
EXETER	744,991	795,721	-6.38%	956,251	-22.09%
ISLE OF MAN	675,871	708,127	-4.56%	754,419	-10.41%
INVERNESS	530,213	591,397	-10.35%	678,776	-21.89%
NORWICH	425,821	430,594	-1.11%	583,056	-26.97%
CITY OF DERRY (EGLINTON)	339,432	345,857	-1.86%	439,033	-22.69%
NEWQUAY	320,194	386,870	-18.55%	466,448	-31.35%
HUMBERSIDE	283,191	336,649	-15.89%	427,669	-33.78%
SCATSTA	279,482	270,101	3.47%	243,087	14.97%
BLACKPOOL[12]	235,340	276,866	-15.00%	439,200	-46.42%
DURHAM TEES VALLEY[13]	226,209	289,464	-21.85%	656,620	-65.55%
KIRKWALL	141,399	150,343	-5.95%	149,508	-5.42%
SUMBURGH	140,129	140,714	-0.42%	156,948	-10.72%
PLYMOUTH[14]	128,603	157,933	-18.57%	117,823	9.15%
ISLES OF SCILLY (ST.MARYS)	115,194	120,909	-4.73%	125,933	-8.53%
STORNOWAY	113,680	123,199	-7.73%	131,752	-13.72%

[10] In 1967 London Southend Airport handled 692000 passengers and was one of the busiest airports in the London area.
[11] Preswick suffered significantly as a result of the downturn compounded by a reduction of Ryanair services
[12] In 2008 Ryanair withdrew its twice daily service from Blackpool to Stansted
[13] Durham Tees Valley decline not helped by the loss of Heathrow connecting flights
[14] Plymouth airport has recently announced its closure due to the loss of services reducing the number travelling to around 100 a day following the loss of its link to Gatwick.

Reporting Airport	2010	2009	% change 2010 to 2009	2008	% change 2010 to 2008
PENZANCE HELIPORT	89,469	85,911	4.14%	98,360	-9.04%
DUNDEE	70,398	72,495	-2.89%	60,939	15.52%
ALDERNEY	70,012	74,835	-6.44%	77,104	-9.20%
ISLES OF SCILLY (TRESCO)	34,310	34,485	-0.51%	40,260	-14.78%
BENBECULA	30,406	33,025	-7.93%	33,910	-10.33%
LANDS END (ST JUST)	30,214	35,044	-13.78%	27,096	11.51%
MANSTON (KENT INT)	25,813	26,325	-5.00%	11,657	121.44%
ISLAY	25,009	22,403	1.37%	29,146	-14.19%
WICK	22,710	20,531	-19.47%	23,806	-4.60%
GLOUCESTERSHIRE	16,533	5,574	179.51%	20,156	-17.97%
BARRA	10,192	10,186	0.06%	10,705	-4.79%
CAMPBELTOWN	8,682	9,536	-8.96%	9,143	-5.04%
TIREE	7,943	8,350	-4.87%	8,496	-6.51%
LERWICK (TINGWALL)	4,609	4,709	-2.12%	4,854	-5.05%
OXFORD (KIDLINGTON)	2,186	1,297	68.54%	-	-
CAMBRIDGE	916	1,307	-29.92%	1,854	-50.59%
SHOREHAM	886	1,213	-26.96%	5,090	-82.59%
LYDD	485	588	-17.52%	1,673	-71.01%
COVENTRY[15]	-	167	-100.00%	331,022	-100.00%
Total Regional Airports	***89,730,194***	***91,549,648***	***-5.04%***	***105,653,283***	***-15.07%***
Total	**214,303,031**	**221,857,586**	**-3.41%**	**239,499,088**	**-10.52%**

Source: CAA

[15] Coventry airport closed in early 2009 following a winding up order. Thomsonfly stopped flights out of the airport in November 2008 following a year when the airport saw plans for a new terminal rejected.

Appendix 4 *- Top 30 International Airports by Passenger Numbers 2010*

Due to the demand for landing and departure slot pairs at Heathrow, the UK hub weathered the recession better than most UK and European airports. In the 2010 list, Gatwick came in at number 33 in the world in terms of passenger numbers. The total UK passenger numbers have now returned to levels not seen since 2004 contributing the loss of two regional airports.

Airport	2010	2009	% change 2010-2009	2008	% change 2010-2008
ATLANTA GA, US (ATL)	89,331,622	88,032,086	1.48%	90,039,280	-0.79%
BEIJING, CN (PEK)	73,891,801	65,372,012	**13.03%**	55,937,289	**32.10%**
CHICAGO IL, US (ORD)	66,665,390	64,158,343	3.91%	69,353,876	-3.88%
LONDON, GB (LHR)	**65,884,143**	**66,036,957**	**-0.24%**	**67,054,745**	**-1.75%**
TOKYO, JP (HND)	64,069,098	61,903,656	3.50%	66,754,829	-4.02%
LOS ANGELES CA, US (LAX)	58,915,100	56,520,843	4.24%	59,497,539	-0.98%
PARIS, FR (CDG)	58,167,062	57,906,866	0.45%	60,874,681	-4.45%
DALLAS/FORT WORTH TX, US (DFW)	56,905,066	56,030,457	1.56%	57,093,187	-0.33%
FRANKFURT, DE (FRA)	53,009,221	50,932,840	4.08%	53,467,450	-0.86%
DENVER CO, US (DEN)	52,211,242	50,167,485	4.07%	51,245,334	1.88%
HONG KONG, HK (HKG)	50,410,819	45,558,807	**10.65%**	47,857,746	5.33%
MADRID, ES (MAD)	49,786,202	48,250,784	3.18%	50,824,435	-2.04%
DUBAI, AE (DXB)	47,180,628	40,901,752	**15.35%**	37,441,440	**26.01%**
NEW YORK NY, US (JFK)	46,495,876	45,915,069	1.26%	47,807,816	-2.74%
AMSTERDAM, NL (AMS)	45,211,749	43,570,370	3.77%	47,430,019	-4.68%
JAKARTA, ID (CGK)	43,981,022	37,143,719	**18.41%**	32,172,114	**36.71%**
BANGKOK, TH (BKK)	42,784,967	40,500,224	5.64%	38,603,490	**10.83%**
SINGAPORE, SG (SIN)	42,038,777	37,203,978	**13.00%**	37,694,824	**11.52%**
GUANGZHOU, CN (CAN)	40,975,253	37,048,712	**10.60%**	33,402,815	**22.67%**
SHANGHAI, CN (PVG)	40,582,356	32,102,549	**26.41%**	28,230,017	**43.76%**
HOUSTON TX, US (IAH)	40,475,058	40,007,354	1.17%	41,709,389	-2.96%
LAS VEGAS NV, US (LAS)	39,397,359	40,469,012	-2.65%	43,208,724	-8.82%
SAN FRANCISCO CA, US (SFO)	39,254,634	37,338,942	5.13%	37,234,592	5.43%
PHOENIX AZ, US (PHX)	38,552,409	37,824,982	1.92%	39,891,193	-3.36%
CHARLOTTE NC, US (CLT)	38,143,078	34,536,666	**10.44%**	34,739,020	9.80%
ROME, IT (FCO)	36,228,490	33,723,213	7.43%	35,132,224	3.12%
SYDNEY, AU (SYD)	35,992,164	33,451,383	7.60%	33,302,642	8.08%
MIAMI FL, US (MIA)	35,698,025	33,886,025	5.35%	34,063,531	4.80%
ORLANDO FL, US (MCO)	34,877,507	33,693,649	3.51%	35,660,742	-2.20%
MUNICH, DE (MUC)	34,721,605	32,681,067	6.24%	34,530,593	0.55%

Source : Airports participating in the ACI Monthly Traffic Statistics Collection.