



UK Air Passenger Duty: letter from the Director General of IATA to the UK Chancellor of the Exchequer, Rt Hon Alistair Darling MP

15 December 2008

Dear Chancellor,

On behalf of the 233 Members of IATA, I would like to express our appreciation that you listened to our representations and decided not to replace the Air Passenger Duty (APD) with the proposed Aviation Duty. Unfortunately, we cannot regard the announced reform of the APD as anything other than bad for passengers, bad for industry and bad for the competitiveness of the UK economy.

We maintain that the reformed APD:

- Will not have any effect on aviation's environmental impact and unfairly penalises the ailing aviation industry
- Still ignores the fact that the industry already fully compensates for its environmental costs
- May constitute an attempt to exert extra-territorial jurisdiction by applying a tax – allegedly to address the environmental impact of flights – outside of UK airspace
- Will result in double taxation under the EU's Emissions Trading Scheme

Therefore, it must be revoked.

The APD today raises £2 billion annually to the UK Government, supposedly for environmental purposes but none of the revenue is earmarked for any such projects. According to industry estimates, the 2008 PBR change will raise some additional £460 million in 2009-10, rising to £720 million by 2011. By 2012, when aviation emissions are to be included in the EU ETS, revenues collected for the APD will approach £3 billion per year. These figures are alarming and cannot be tolerated by our industry.

The timing could not be worse. IATA recently announced its forecast for industry losses of US\$ 5 billion this year and US\$2.5 billion in 2009. All regions, except the US, are expected to report larger losses in 2009 than in 2008. Losses for European carriers will increase ten-fold to US\$1 billion. Europe's main economies are already in recession. The reformed APD will hit UK network carriers badly with severe consequences for the UK global economy in the coming years. We fail to understand the logic behind the UK Government making tax cuts to help the UK economy recover, while at the same time punishing a struggling but very important industry with massive tax rises.

In addition, there are some serious shortfalls in the revised APD scheme and we urge the Government to address the following without further delay:

- The rates themselves are disproportionate to actual fare levels
- The four distance bands create discrimination against various destinations and cause market distortions
- The measurement system behind the bands has incorrectly placed many countries in a higher band

In short, the reform of the Air Passenger Duty is unwarranted and unjustified. The effects of its implementation have clearly not been considered properly, through the due consultation processes. Therefore, I urge you in the strongest possible terms to withdraw the reform proposals immediately.

Sincerely,

Giovanni Bisignani
Director General and CEO
IATA – International Air Transport Association
Montreal – Geneva

cc: Rt Hon Geoff Hoon MP, Secretary of State for Transport
Rt Hon the Lord P Mandelson, Secretary of State for Business Enterprise and
Regulatory Reform
Rt Hon Angela Eagle MP, Exchequer Secretary, HM Treasury