



UK Air Passenger Duty (APD): letter from the Director General of IATA to The Rt Hon George Osborne MP, Chancellor of the Exchequer, HM Treasury

Geneva, 17 June 2010

Dear Chancellor,

Please accept my congratulations on your appointment as Chancellor of the Exchequer.

I am writing to express my serious concern about the proposal to replace the Air Passenger Duty (APD) with a per plane tax. Although no further details of such a proposal have been promulgated at this point, I must strongly protest against this idea as a matter of principle.

A per plane tax would be contrary to the Convention on International Civil Aviation (Chicago Convention) and cause serious diplomatic issues¹. The proposal should be abandoned on these grounds alone.

The proposed per plane tax would also put the UK economy at a severe competitive disadvantage. It would incentivize connecting passengers to avoid the UK, using other connecting points in the EU or elsewhere instead. Connecting passengers are essential to the UK economy as they enable network airlines to operate routes (e.g. Tokyo, Shanghai, Delhi) that would otherwise not be sustainable. Without these connecting passengers, service on many of these routes would need to be reduced or eliminated, thereby making the UK a less competitive location for businesses, compared with other European countries that offer wider networks of non-stop inter-continental links.

The impact of such a per plane tax on cargo and air freight operations located in the UK would be even greater. Air freight represents 1.3% by weight, but 50% by value of UK extra-EU exports (DfT 2007). 65% of air freight travels in passenger aircraft, which are already covered by APD and thus in the scope of 'environmental' taxes on aviation. 20% of all air freight brought to the UK is being transhipped elsewhere (CAA 2007). If transhipment becomes less viable then the case for maintaining hub operations in the UK weakens alongside the reduction in non-stop services.

According to a 2008 assessment of the economic impact of such a duty, almost 30% of yields could be lost on the key UK-Asia and UK-North Atlantic markets. This level of impact would make it disastrously unprofitable to operate these services by significantly driving up freight costs.

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¹ US Diplomatic Note No. 014, dated 15 April 2008, sent through US Embassy in London

The proposed per-plane duty also represents a direct threat to freight forwarding and logistics business. Incentivized to relocate outside the UK, the countless other businesses in all sectors of the UK economy that they serve would lose access to affordable air-freight services, thereby also encouraging these businesses to relocate outside the UK.

We should not repeat the mistakes of the recent past. The previous Labour administration already suggested a similar move in 2008 in its proposal to introduce a per plane 'Aviation Duty'. The idea was swiftly abandoned once it was recognized as ill conceived and misguided.

They were not alone. Last year, the Dutch Government took the common-sense decision to abolish its own Air Passenger Tax, introduced a year earlier. A thorough review and in-depth analysis of the situation concluded that the ticket tax was a competitive disadvantage for the global Dutch economy with missed income for airports, airlines, travel agencies/tour operators and from foreign tourists. In addition, the total revenue for the Government was offset by the increase in costs elsewhere such as additional unemployment.

Finally, I must emphasize in the strongest possible terms that this is not a time to introduce new or increase existing taxes on the ailing air transport industry. The state of the aviation industry today is grim. European GDP growth is expected to be 0.9% this year – the lowest among the world's major regions. The European airlines will be in the red with losses of \$2.8 billion.

With the above in mind, I urge you to abandon the idea of a per plane tax in an announcement at the 22 June budget. I also request that you freeze the Air Passenger Duty at its current revenue levels.

I look forward to your early reply.

Sincerely,

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

cc: Rt Hon Philip Hammond MP, Secretary of State for Transport
Rt Hon Theresa Villiers, Minister of State for Transport
Mr. Willie Walsh, CEO, British Airways
Mr. Wolfgang Prock-Schauer, CEO, British Midland
Mr. Steve Ridgway, CEO, Virgin Atlantic