

easyJet response to the Scottish government consultation on a Scottish replacement to Air Passenger Duty

Introduction

easyJet is the UK's largest airline. We carry 5.5 million passengers to and from Scotland each year, 30% of whom are business passengers. We fly from all Scotland's main airports, both domestically within the UK and linking Scotland directly to Europe, with a total of 62 routes out of Scotland. We also base aircraft at both Edinburgh and Glasgow, 12 in total.

This response both summarises easyJet's views on the benefit of reducing APD in a single step, and also addresses each of the questions raised by the consultation.

Summary

Scotland's aviation policy recognises the potential for aviation to act as an enabler of economic growth and jobs through the benefits it brings in terms of trade and investment and productivity. Taxing aviation through APD is in effect a tax on growth, and evidence shows it is counter productive as removing APD would not only support growth, but also fund itself through greater tax revenues due to this higher growth.

We support the government's plans to halve APD, which will not only support Scotland's connectivity and economy, but by lowering the cost of travel for all passengers will also support social welfare by making it easier to go on holiday and visit friends and family. We estimate that a 50% reduction would increase easyJet's passengers by 30%. However, the only way to ensure these benefits are delivered as quickly as possible is to implement the 50% reduction in a single cut rather than phasing it in over time. A phased reduction risks dampening the positive effect on connectivity and therefore removing a clear visible benefit from reducing the tax. Because airline capacity is lumpy, the market will respond more slowly to a phased reduction, delaying its positive economic benefits and connectivity gain.

Full response to the questions set out in the consultation

1. Do you agree with our strategic and policy objectives for supporting Scotland's air connectivity?

We support Scotland's efforts to enhance its connectivity, and we recognise the value and importance of connecting Scotland to short haul destinations of economic value. We believe that the most effective and sustainable way to support connectivity is to lower the costs of travel for all passengers and allowing consumers to determine where they want to fly and which routes are sustainable. This avoids trying to pick winners, and ensures that routes are sustainable in the long term; as if they are based on underlying consumer demand rather than artificial government support they are much more likely to survive.

Consequently we welcome the commitment to supporting airport competition and airline (driven by passengers) choice of airports for their routes. Airport competition is the most effective way to ensure that Scotland's airports operate efficiently, and deliver service levels that passengers value. Allowing airlines to determine which routes are the most viable ensures they can work to match consumer demand.

2. How could a Scottish replacement to APD help achieve these objectives?

A straight forward and across the board halving of APD is the most effective way for the government to support its aim of enhanced connectivity. It lowers travel costs for all passengers, and ensures that the market determines which routes are viable.

The reduction in APD will support more travel, and will also make new routes viable. This will create significant economic and job benefits for Scotland. Our response to Question 8 addresses these in detail.

3. (a) Taking in to account the scope of the powers proposed to be devolved to the Scottish Parliament, should the UK APD definition of 'chargeable passenger' and 'chargeable aircraft' be retained under a Scottish replacement tax?

Yes. Retaining the same definitions will minimise the cost of compliance with the tax. The current definitions 'work' and no significant weaknesses in the approach have been identified.

4. (a) Do you think that the current UK APD per passenger charging model should be retained under a Scottish replacement tax?

Yes. This will simplify the introduction of Scottish APD.

5. (a) Do you think that the current UK APD destination based banding system should be retained under a Scottish replacement tax?

Yes.

5. (b) If you answered yes to question 5a, should destination bands be defined by distance to capital cities or what alternative measures could be considered? What would be the optimum number of bands to support the achievement of the Scottish Government's strategic objectives for a Scottish replacement tax, as outlined in Chapter 2?

We do not think the banding structure applied in the rest of the UK is optimal, as it does not fully reflect the increased carbon emissions of long haul flying. However, for simplicity we think the Scotland structure should retain the current banding applied to UK APD.

6. (a) Do you think that the reduced, standard and higher rates system used for UK APD should be retained under a Scottish replacement tax?

Yes

6. (b) If you answered yes to 6(a), do the UK definitions remain appropriate for practices in the aviation industry in Scotland?

The different rates, for standard, reduced and higher, are relevant for Scotland. The mix of Scotland's aviation traffic includes premium cabins and large business jets, so the different rates will retain meaning and applicability.

7. Can you provide any evidence on the impact of the introduction of the higher rate which came into effect from 1 April 2013?

No.

8. Do you have any views on how and when the planned 50% reduction in the burden of APD should be implemented?

We support introduction of the full 50% cut in APD in spring 2018. The rationale for the reduction is that it will:

- drive enhanced connectivity for Scotland
- reduce fares, so increasing travel, with the economic and social benefits this brings
- send a clear message that the Scottish government is working to support the Scottish economy

None of these objectives are enhanced by a delayed and phased reduction in APD.

A reduction in the tax will enhance connectivity by reducing the cost of travel, increasing demand and therefore making new routes economically viable that at the previous higher tax rates could not sustain viable passenger demand. Clearly, the greater the reduction in the tax the larger the connectivity benefits, as a larger reduction will lead to a greater increase in passenger demand, so increasing the number of viable new routes.

It is important to point out that there is no suggestion a reduction would not be passed on to passengers. The level of competition in the airline sector is high, and consequently airlines are unable to sustain excessive fares. The impact of the recent reduction in fuel prices is a good example of this, with fares falling following lower oil prices.

The low barriers to entry on new routes and the transparency over fares mean that any attempt to 'retain' the benefit of lower APD would induce new entry into the market bringing down fares for everyone.

easyJet's internal analysis suggests that immediately halving the tax would lead to easyJet increasing its flights and passengers by about 30%. If the tax reduction is phased over three years it risks dulling and slowing the signals to airlines to increase capacity and connectivity.

Airline capacity and route networks are a result of decisions on how to allocate existing capacity - from within current aircraft fleets - and whether to expand overall capacity by increasing the size of fleets. The allocation of incremental capacity to Scotland will be made in the context of its profitability versus the allocation of that capacity to an alternative market. A decision to increase the overall capacity of an airline will be made with a view to incremental returns from a larger fleet. If Scotland reduces APD in relatively small steps over three years the airline response is likely to be slower overall than it would be to an immediate 50% reduction. In other words even at the end of the three years

the impact is likely to be smaller than if the reduction was carried out in a single year.

A slower phased reduction will mean that airlines face a smaller incremental reduction in the cost of flying each year. This will in particular make new routes less likely to be induced by the reductions, particularly in the early years. Because aircraft capacity is relatively 'lumpy' a new route requires a significant investment of capacity. It is not a marginal decision. So small changes in the tax may not trigger sufficient changes in route economics to justify the allocation of an aircraft to a new route.

The effect of delayed new routes and relatively slower growth in capacity and passenger numbers carries another risk; that the benefits of the reduction will not be visible until several years after the cost of the reduction is incurred.

An in full 50% reduction in the tax mitigates these risks. It will make it easier for airlines to plan a step change in their capacity, either by reallocating aircraft from within their existing fleet or expanding their fleets to cater for Scottish routes. It will also support airline marketing around the reduction, including cross border marketing. This would lead to very visible increases in overall passenger numbers from Scottish airports and also immediate and significant increases in routes, providing very clear evidence of the benefits of the reduction in the tax.

Finally, an immediate reduction in the tax will make it easier for airlines to build up the number of aircraft they base in Scotland. This will bring new jobs for the pilots and cabin crew who will fly these aircraft. easyJet directly employs about 40 people per based aircraft, with similar numbers employed in support services. easyJet currently has 12 aircraft based in Scotland, at Glasgow and Edinburgh airports. We would expect an immediate 50% reduction in the tax to increase passengers by 30%, with a proportionate impact on the number of based aircraft, leading to around 160 new jobs for pilots and crew, as well as another 160 jobs for support staff.

We recognise that advocating an immediate reduction in the tax risks looking like we are simply supporting our own interests. But we return to the rationale for the reduction of the tax: to support economic growth and jobs.

There is strong evidence to show that aviation is an enabler of growth and jobs, for example from Frontier Economics¹, pwc² and Oxford Economics³. For example Frontier Economics⁴ analysis suggests that across the EU on average an additional 1 million passengers generates about £2.3bn of GDP. This benefit

¹ Frontier Economics Ltd, Measuring the economic contribution of air travel in the EU, 2015

² Various pwc reports for the UK Airports Commission and The economic impact of Air Passenger Duty, 2013

³ Oxford Economics, Aviation Benefits Beyond Borders, 2014

⁴ Frontier Economics Ltd, Benefit of better regulation of airports in Europe

flows not simply from the employment generated within aviation, but because aviation supports trade and investment and enhances productivity. Without aviation the Scottish economy would be smaller, because trade and inward investment would be significantly lower. Consequently anything that increases the cost of travel for passengers, such as taxes, is a tax on growth and jobs.

This is consistent with the economic analysis of the effect of reducing or removing APD. The pwc report⁵ on the effect of removing UK APD suggested that UK GDP would increase by around £2bn annually in the long run and by over £16bn in the first three years. The report also showed that removing UK APD would not carry fiscal costs, as the tax revenue arising from increased economic activity would more than outweigh the tax losses.

There are also of course significant social benefits that come from more travel, from people going on holiday to seeing their family more.

Given the economic benefits of removing the tax we question the benefit of phasing its withdrawal; if it is good economic policy to halve the tax, then surely it is good policy to do it quickly.

The environmental issues surrounding the tax are also relevant. Aviation policy must take in to account the environmental impact of flights. UK APD was originally introduced in 1994 as an environment tax but it has now become a general tax (as recognised by the UK government). Today aviation emissions are covered by the EU Emission Trading Scheme.

The aviation industry is continuing to invest to reduce its environmental impact. For easyJet's part, our carbon emissions per passenger kilometre decreased by more than a quarter between 2001 and 2013 and we are already making good progress on our current target of a further 8% reduction between 2013 and 2020. This includes our new fleet of Airbus A320neo aircraft, which will start to arrive in 2017 and will increase fuel efficiency by 13 to 15%. The Sustainable Aviation carbon roadmap⁶ shows that UK aviation is able to accommodate significant growth to 2050 without a substantial increase in absolute carbon emissions.

9. (a) Do you think that the current UK APD passenger exemptions should be retained under a Scottish replacement tax?

Yes

⁵ pwc, The economic impact of Air Passenger Duty, 2013

⁶ Sustainable aviation, <http://www.sustainableaviation.co.uk/wp-content/uploads/2015/09/SA-Carbon-Roadmap-full-report.pdf>

9. (a) If you answered yes to Q9(a), to what extent are the existing definitions appropriate for the Scottish industry?

We support the retention of the exemptions for simplicity reasons, to reflect the structure of the current tax. However, we should note that overall we do not support the exemption for transit passengers, which we see as effectively a tax on UK residents and visitors to encourage transit passengers to use UK airports with no meaningful benefit for UK residents. However, in the context of Scotland this issue is unlikely to be material.

10. (a) Do you think that the current UK APD flight exemptions should be retained under a Scottish replacement tax? Please answer yes or no.

Yes.

10. (b) If you answered yes to Q10(a), to what extent are the existing definitions appropriate for the Scottish industry?

For simplicity and to reflect the current tax structure.

11. What are the benefits to the local economy and residents of the Scottish Highlands and Islands region from the current UK APD exemption for passengers departing from airports in the region?

We can not point to any direct evidence on the economy of the Highlands and Islands. But we note that there has been significant growth in flights to and from Inverness, and as we outlined in our response to question 8 we would expect these to have brought significant economic benefits.

12. Do you think the current exemption for outbound flights from the Highlands and Islands region should be retained or modified under a Scottish replacement tax? Please answer „retained“ or „modified“.

Retained

13. Do you think that the current UK APD rules relating to connected flights should form a baseline position for a Scottish replacement tax? Please answer yes or no.

For simplicity we believe the current provisions should be applied in the Scottish tax. However, we note our overall opposition to the tax exempt status for transit passengers.

14. What situations do you think could result in double taxation after a Scottish replacement to APD is introduced, and how might double taxation in such situations be avoided?

n/a

15. Do you agree with our proposals regarding registration for a Scottish replacement to APD? Please answer yes or no.

Yes

16. Do you currently use the Occasional Operator Scheme for UK APD? Please answer yes or no.

No

17. Do you currently use a fiscal representative for UK APD?

No

18. Do you currently use an administrative representative for UK APD?

No

19. What are your views on the current level of information required in the UK APD tax return? What additional information, if any, do you think it would be beneficial to collect on a Scottish tax return in order to ensure efficient and effective compliance of that tax?

The current UK tax return contains the appropriate level of information.

20. Do you currently use a special accounting scheme system for UK APD?

No

21. Do you agree with our proposal for a standard quarterly tax return cycle under a Scottish replacement to APD?

Yes

22. Do you think taxpayers should be able to apply to use an alternative annual tax return cycle or non-standard accounting period?

Yes

23. Do you agree with our proposal for tax returns for a Scottish replacement to APD being able to be submitted both online and by post, and having to be received no later than 30 days after the end of the relevant return period?

Yes

24. Do you agree with our proposal for taxpayers, subject to certain conditions, being able to amend previously submitted tax returns either online or by post under a Scottish replacement to APD?

Yes. We believe that Scotland should apply the rules currently applied to UK APD for simplicity and to minimise the cost of compliance

25. What impact, if any, will there be on your organisation in not being able to adjust for under-declarations and over-declarations in later tax returns?

Not being able to adjust to returns for reasonable errors increases the risk of unreasonable charges being exerted.

26. Do you agree with our proposals regarding payment methods and time limits for a Scottish replacement to APD?

Yes

27. Do you agree with our proposals regarding claims for repayment or relief from tax?

Yes

28. Do you agree with our proposals regarding keeping and preserving records in relation to a Scottish replacement tax?

Yes

29. To what extent, and in what areas, do you think that artificial tax avoidance is or is not currently an issue with UK APD? If you think it is an issue, what measures could be taken to reduce the potential for such avoidance?

We are not aware of any significant issues with tax avoidance

30. Do you agree with our intended approach to tackling tax avoidance and tax evasion in relation to a Scottish replacement tax?

Yes

31. Do you agree with our proposals for the investigatory and enforcement powers set out in Chapter 11 that will be available in relation to a Scottish replacement tax?

Yes

32. Do you agree with our proposals for civil penalties in relation to a Scottish replacement to APD?

Yes

33. Do you agree with our proposals for charging interest in relation to a Scottish replacement to APD?

Yes

34. Do you agree with our proposals for dispute resolution in relation to a Scottish replacement to APD?

Yes

easyJet

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