

SHORT (& MEDIUM) TERM MEASURES - EXECUTIVE SUMMARY

MEASURE SET	Airport passenger duty (APD)	
MEASURE TITLE	Differential APD	
MEASURE SUMMARY	This measure concerns proposals to apply APD at different rates across airports as a regulatory lever to incentivise the redistribution of traffic: (i) from the London airports to regional airports; (ii) from congested airports to non-congested airports (as a type of congestion charge).	
MEASURE INVOLVES	<input type="checkbox"/> Behavioural Change <input type="checkbox"/> Operational Change <input type="checkbox"/> Technical Change	<input type="checkbox"/> Infrastructure Change <input checked="" type="checkbox"/> Regulatory Change <input checked="" type="checkbox"/> Policy Change
WHAT DOES THIS ADDRESS?		
<p>Currently air passenger duty (APD) is applied at a series of bands independent of the airport at which it is being paid. There are four bands of APD that vary (increase) with the distance being flown (distance between the capital city of the destination country and London). There are three bands, dependent on the class of travel within each destination band. Setting rates for APD for journeys originating in Northern Ireland has been devolved to the Northern Ireland Assembly: these rates have been set to zero for direct long-haul flights. There are certain other exemptions, for example for passengers departing from Highlands & Islands Airports (where the rate is zero). In addition, APD is not charged on international-international connecting flights through a UK hub; nor on international-domestic connecting flights. It is charged, however, on domestic-domestic and domestic-international connecting flights.</p>		
WHAT WOULD BE DONE?		
<p>The measure set differential rates of APD, preserving overall revenue to the Exchequer, based on the levels of congestion at the UK origin airports. The focus would be on attracting direct long-haul flights to regional airports.</p>		
WHAT IS THE IMPACT?		
<p>The measure is aimed promoting the redistribution of traffic within the UK airport system from congested to less-congested airports.</p>		

MEASURE SET:	Air passenger duty	Short Term	<input checked="" type="checkbox"/>
MEASURE TITLE:	Differential APD	Medium Term	<input checked="" type="checkbox"/>

MEASURE SUMMARY

Proposed by:	Birmingham Airport(009), Manston(051), Aberdeen Airport(004), Bristol Airport(010), Dorset LEP(015), Exeter City Council (017), Heart of the SWLEP(023), HITRANS(026), Fox(029), MAG(050), Western Gateway(072), Welsh Government(070), GACC(020), Newcastle Airport(057), NECC(058), SELEP(063), West Midlands Planning and Transportation Sub Committee(071), Kent County Council (075)		
Proposal: APD-DIF-1	<ul style="list-style-type: none"> Apply APD with differential rates at UK airports in a revenue neutral way as a type of congestion charge to facilitate the redistribution of traffic from congested to less-congested airports with particular focus on direct, long-haul flights. 		
Approach	<p>This measure concerns setting and applying different rates of Air Passenger Duty (APD) for UK airports, with higher rates for LHR and possible LGW and LCY, and lower rates for all other airports. The overall impact could be revenue neutral. The intention is that differential APD will promote growth in air traffic at less congested airports, facilitating redistribution of demand within the UK airport system. There could a particular focus on attracting direct long haul flights to secondary airports. The approach is for APD to be lowered at less congested airports. Specific proposals are as follows:</p> <ul style="list-style-type: none"> lower APD based on airport congestion undertake full analysis of the impact of APD including an objective analysis of the impacts of introducing differential rates of APD reform APD to make flying from regional airports more financially attractive to airlines £5 per head extra tax at Heathrow, extended to Gatwick when it reaches full capacity, then increased every year until demand for flights equalled capacity (GACC); higher APD at LHR and LGW, revenue neutral lowering of APD at airports other than LHR and LGW (Heart of the SWLEP) raise APD by 20% at LHR, LGW and maybe LCY, lower by 40% at all other UK airports. Guarantee the differential remains for five years (Fox) <p>All non-London airports would have significantly reduced APD relative to London airports. This could involve a revenue neutral reduction of APD at those airports and increases, particularly on flights from LHR (but also considered for LGW once congestion approaches that of LHR). Traffic redistribution is assumed to occur as it becomes cheaper to fly from airports with lower APD</p>	<p>Stated Capital Cost: Not stated</p> <p>Capacity (mppa): Not stated</p> <p>Capacity (atm): Not stated</p>	
Benefits	<p>The main benefits cited are:</p> <ul style="list-style-type: none"> Potential greater connectivity opportunities at regional airports. May encourage some flight redistribution from more congested London airports to less congested airports (Source: Exeter Airport) 		
Issues & Risks	<p>The main issues and risks are that:</p> <ul style="list-style-type: none"> the measure may be seen as discriminatory practice by LHR, LGW and LCY. differential APD may have very limited impact on flight and demand redistribution, especially concerning Heathrow where costs and yields are considerably higher than most other airports the levels at which differential APD may be effective could still result in very limited growth of flights to regional airports (e.g. if APD was zero) and may discourage some airlines from the UK altogether if LHR and LGW are too expensive. New traffic at regional airports likely to be dependant on smaller aircraft and lower load factors. Potentially harmful for UK ability to connect to new markets. 		
Mitigations	None identified – if successful in redistribution, or encouraging regional growth, additional local mitigation may be required		
Dependencies	<p>There key dependencies are:</p> <ul style="list-style-type: none"> Chancellor of the Exchequer, HMRC, Treasury agreement to change tax policy. Appropriate market response of airlines to lower APD at regional airports. 		

MEASURE SET:	Air passenger duty	Short Term	<input checked="" type="checkbox"/>
MEASURE TITLE:	Differential APD	Medium Term	<input checked="" type="checkbox"/>

ASSESSMENT SUMMARY

Strategic Fit	Detailed modelling carried out on this option (see separate document). Results indicate moderate formation of new routes at some airports, particularly Luton, Stansted and Birmingham. New routes largely based on smaller aircraft. Heathrow and Gatwick sacrifice some ability to connect to new markets. Overall net increase in UK flights but decrease in seats – poor for carbon efficiency.
Economy	Expected to increase international connectivity for non-London airports as a result of incremental increases in flights and routes. For example, impacts cited in the proposals include: <ul style="list-style-type: none"> • Could support more regional flights given that average profit per seat for Easyjet is £3.97 across its network in 2011, compared to £13 per passenger in APD on short haul flights (Bristol Airport). • A 50% increase in APD at LHR and LGW would redistribute demand principally to LTN, STN and BHX (Exeter Airport - citing HMRC paper “Modelling the Effects of Price Differentials at UK Airports”). • £5 tax at LHR and eventually LGW would transfer some short haul passengers to STN and LTN. It would encourage larger aircraft with higher load factors (GACC).
Surface Transport	Not yet known – depends on outcome of the measure which requires further analysis to be understood properly.
Environment	Not yet known – depends on outcome of the measure which requires further analysis to be understood properly.
People	Not yet known – depends on outcome of the measure which requires further analysis to be understood properly.
Cost	Not yet known – depends on outcome of the measure which requires further analysis to be understood properly.
Operational Viability	Depends on tax regulatory change
Delivery	Delivery depends on: <ul style="list-style-type: none"> • tax regulatory change. • regular review to ensure “congestion” measure is applied appropriately to avoid potential challenge on basis of discrimination. • overcoming the opposition likely from much of the airline industry.