

## SHORT ( & MEDIUM) TERM MEASURES - EXECUTIVE SUMMARY

<b>MEASURE SET</b>	Airport passenger duty (APD)	
<b>MEASURE TITLE</b>	Charge APD on interliner traffic at LHR	
<b>MEASURE SUMMARY</b>	This measure involves imposing APD on interline traffic at LHR	
<b>MEASURE INVOLVES</b>	<div> <input type="checkbox"/> Behavioural Change         <input type="checkbox"/> Infrastructure Change       </div> <div> <input type="checkbox"/> Operational Change         <input checked="" type="checkbox"/> Regulatory Change       </div> <div> <input type="checkbox"/> Technical Change         <input checked="" type="checkbox"/> Policy Change       </div>	
<b>WHAT DOES THIS ADDRESS?</b> <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 &amp; 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>		
<b>WHAT WOULD BE DONE?</b> <p>APD would be applied to all interline traffic at LHR.</p>		
<b>WHAT IS THE IMPACT?</b> <p>The impacts would be expected to be:</p> <ul style="list-style-type: none"> <li>Increased revenue for the Crown.</li> <li>Reduced demand from interliners would increase available capacity for point to point users. However, this could also have a negative effect of reducing the economies of scale and scope enabled by connecting traffic and might actually reduce the number of destinations served from Heathrow with thin routes being dropped in favour of more thick routes.</li> </ul>		

MEASURE SET:	APD	Short Term	<input checked="" type="checkbox"/>
MEASURE TITLE:	Charge APD on interliner traffic at LHR	Medium Term	<input checked="" type="checkbox"/>

## PROPOSAL SUMMARY

Proposed by:	Richmond Heathrow Campaign (060)		
Proposal: APD-INT-1	<p>This measure covers the proposal of:</p> <ul style="list-style-type: none"> <li>Imposing APD on interline traffic at LHR</li> </ul> <p>This measure <i>could</i> be introduced in the short-term as long as mechanisms for collecting and enforcing the tax regime could be established. Currently indicated as medium term due to legal concerns.</p>		
Approach	The approach would be for all interline traffic at LHR to be subject to APD	<p>Stated Capital Cost: Not stated (unlikely to be any)</p> <hr/> <p>Capacity (mppa): Not stated</p> <hr/> <p>Capacity (atm): Not stated</p>	
Benefits	<p>The main benefits available are:</p> <ul style="list-style-type: none"> <li>Increased revenue for HM Treasury.</li> <li>Reduced demand from interliners would increase available capacity for point to point users; this may either increase or reduce airfares for point to point (UK based) travellers. The argument for the former is that point-to-point traffic would not be subsidised by connecting traffic and the argument for the latter is that additional capacity (supply) would be available to meet demand so that prices would reduce.</li> </ul>		
Issues & Risks	<p>The main issues and risks are:</p> <ul style="list-style-type: none"> <li>the measure may be illegal under treaties</li> <li>it could significantly undermine hub airline business at LHR (particularly BA)</li> <li>LHR would consider application to LHR alone as discriminatory requiring it to be imposed on all UK airport</li> <li>it increases costs to interline traffic and airfares for those users.</li> </ul>		
Mitigations	Not stated.		
Dependencies	The key dependency is the legality of taxing interliners.		

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## ASSESSMENT SUMMARY

<b>Strategic Fit</b>	Reduces hub role of LHR. May not be consistent with enhancing UK's position as an aviation hub.
<b>Economy</b>	Reduces interlining traffic, likely to redistribute LHR slot towards more viable point to point traffic on thick routes and might, therefore, reduced the number of destinations available from Heathrow. Unknown impacts on distribution of destinations and frequencies. Increases to airfares for interliner traffic, may reduce demand and fares for point to point traffic
<b>Surface Transport</b>	Not stated
<b>Environment</b>	Not stated.
<b>People</b>	Not stated.
<b>Cost</b>	Positive for UK tax revenue
<b>Operational Viability</b>	Tax regulatory change. May be contrary to treaty law.
<b>Delivery</b>	Tax regulatory change. Possible legal issues to taxing interline traffic.