

Airlines UK briefing note on domestic Air Passenger Duty

Following the UK's departure from the EU and the end of the transition period, UK airlines are seeking **the immediate end to the domestic Air Passenger Duty (APD) 'anomaly'**, whereby due to Single Market rules UK domestic flights are subject to effective double taxation.

Addressing this policy, which is now in the UK's gift, would help support regional connectivity, level-up the UK, and provide a measure of relief to air carriers facing an existential crisis resulting from the Covid-19 pandemic.

Background

The UK is unique as one of a handful of European countries to levy an air passenger duty. APD adds a significant amount to the price of tickets, making it harder for airlines to maintain and grow routes. The impact is made worse for domestic UK operators because the charge is levied twice, on both the outbound and return journeys - **£26 on a return ticket – where an equivalent UK-Europe flight only attracts a duty of £13.**

- The policy is significantly disadvantageous to the UK regions in particular. There has been a material loss of connectivity at UK regional airports since this was introduced in 2006 with the tally of UK domestic air routes served **falling by 27%**. The number of passengers using domestic air services has dropped from 26.1 million in 2005 to 22.4 million in 2019 despite strong economic growth over the same period.
- Prior to its collapse, Flybe was the UK's third biggest domestic operator. APD represented nearly **20 per cent of its average total fare**.
- To look specifically at Northern Ireland, the impact of double APD is particularly acute. The double charge is a direct financial incentive for people from the rest of the UK not to visit Northern Ireland but to travel to an international destination.

Opportunity

The primary impediment to addressing double taxation was EU law on State aid. However, with the end of the transition period and under the terms of the new Trade and Cooperation Agreement between the EU and UK, action on domestic APD is now possible by HMT.

UK aviation is currently in the grip of an unprecedented crisis resulting from the Covid-19 pandemic. Whilst addressing domestic APD at the Budget 2021 will not alone be enough to support the sector through this crisis, it would make a meaningful difference to carriers serving domestic routes whilst supporting the Government's levelling-up and regional connectivity agendas - by helping sustain current domestic connections, and by helping foster new intra-regional connectivity which is essential to achieving economic growth.

A 2018 study¹ by Airlines UK and Frontier Economics considered how the abolition of APD would impact on new connections in the UK, which concluded that 20 domestic routes could be added (see right).

Figure 9 Potential new domestic connections



Source: Frontier analysis using OAG data, and Great Circle Mapper.

For more information, please contact Rob Griggs at rob.griggs@airlinesuk.org.

¹ <http://airlinesuk.org/wp-content/uploads/2018/09/The-Impact-of-Air-Passenger-Duty-on-Airline-Route-Economics-4.pdf>