



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Wednesday 1 February 2017

Session 5



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CONTENTS

| | Col. |
|---|-------------|
| INTERESTS | 1 |
| DECISION ON TAKING BUSINESS IN PRIVATE | 2 |
| SCOTTISH FISCAL COMMISSION (APPOINTMENTS) | 3 |
| AIR DEPARTURE TAX (SCOTLAND) BILL: STAGE 1 | 11 |

FINANCE AND CONSTITUTION COMMITTEE

5th Meeting 2017, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Adam Tomkins (Glasgow) (Con)

COMMITTEE MEMBERS

- *Neil Bibby (West Scotland) (Lab)
- *Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
- *Ash Denham (Edinburgh Eastern) (SNP)
- *Murdo Fraser (Mid Scotland and Fife) (Con)
- *Patrick Harvie (Glasgow) (Green)
- *James Kelly (Glasgow) (Lab)
- *Liam Kerr (North East Scotland) (Con)
- *Ivan McKee (Glasgow Provan) (SNP)
- *Maree Todd (Highlands and Islands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

- Tim Alderslade (Airlines UK)
- Gordon Dewar (Edinburgh Airport)
- Jonathan Hinkles (Loganair Ltd)
- David Horne (Virgin Trains)
- James McLellan (Scottish Government)
- Professor Alasdair Smith (Competition and Markets Authority)
- John St Clair (Scottish Government)
- Mike Stewart (Scottish Government)
- David Wilson (International Public Policy Institute)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament
Finance and Constitution
Committee

Wednesday 1 February 2017

[The Convener opened the meeting at 09:31]

Interests

The Convener (Bruce Crawford): Good morning, colleagues, and welcome to the fifth meeting in 2017 of the Finance and Constitution Committee. As usual, I remind members to switch off their phones, tablets and so on, or at least to put them into a mode that does not interfere with proceedings.

Agenda item 1 is a declaration of interests. I welcome Liam Kerr MSP to the committee and invite him to declare any relevant interests.

Liam Kerr (North East Scotland) (Con): Thank you, convener. I refer members to my entry in the register of members' interests but, for good order, I will highlight a few items. I am a director and employee of Trinity Kerr Ltd, which is a provider of legal services; I own a flat in Edinburgh from which I receive rent; and finally I own a very small number of shares in Aberdeen Community Energy, a community group that has installed a community hydroelectric turbine at Tillydrone in Aberdeen.

The Convener: Thank you, Liam. I warmly welcome you to the committee and look forward to working with you. I express the committee's thanks to Dean Lockhart for his time as a committee member and for the contribution that he made to our proceedings.

Decision on Taking Business in
Private

09:32

The Convener: Item 2 is a decision on taking business in private. Do we agree to take item 5 in private?

Members indicated agreement.

Scottish Fiscal Commission (Appointments)

09:32

The Convener: Item 3 is an evidence-taking session with two individuals who have been nominated for appointment to the Scottish Fiscal Commission by the Cabinet Secretary for Finance and the Constitution.

I welcome to the meeting Professor Alasdair Smith and David Wilson. Members have received copies of the cabinet secretary's letter of nomination along with the candidates' application forms, which have been redacted to remove any personal data. Members have also received copies of the selection criteria along with a note from the clerks that sets out the procedural arrangements for the nominations.

Do the nominees wish to make opening statements before we move to questions?

Professor Alasdair Smith (Competition and Markets Authority): I will make a very brief one, convener.

I have a long-standing interest in how fiscal rules help to guide an economy, a broad-based interest in public policy issues and very considerable experience in running a medium-sized university and dealing with all the challenges that are involved in that. I now work with the Competition and Markets Authority, which involves detailed scrutiny of competition and regulation cases. I have also learned a great deal from what I see as the interesting interaction between the members of the CMA's competition panel—commissioners, if you like—who come from a background that is relevant to the authority's work and the CMA's professional staff.

As a result of serving on a number of pay review bodies as well as on the CMA, I have broad-based experience of working with bodies that advise but are independent of Governments. I have a great deal of interest in and experience of what independence means, how important it is and how it gets safeguarded.

David Wilson (International Public Policy Institute): Thank you for the opportunity to make a brief opening statement. I am sure that we will go through the criteria for the role, so I will just give you an overall picture.

I am executive director of the international public policy institute at the University of Strathclyde. At the institute, we are trying to develop an overall big-picture assessment of some of the challenges that we face in Scotland, the United Kingdom and internationally and to draw together the expertise

that exists in Strathclyde on many issues that are relevant both to this committee and, more specifically, to the Scottish Fiscal Commission.

As for my background, you will know from my application that I worked for many years in the UK Government and then in the Scottish Government as a civil servant, initially as an economist and more recently as a senior civil servant covering a range of policy areas. I hope that that experience provides a very strong grounding for working in public life, and I think that my extensive experience of work on Scottish public policy issues, particularly economic policy issues, gives me a strong grounding for working on fiscal issues.

That was just an introduction. I am happy to cover any points in more detail.

The Convener: Thank you for your statements. I note from your respective CVs that you both have extensive experience from a number of roles in the fields of finance and economics, but will you tell the committee whether you have specific experience of producing analysis of forecasts? Whoever wants to start should feel free to do so.

Professor Smith: I will go first. I am an economist, but I am not a forecaster in the narrow sense; in other words, I am not a macroeconomist who is concerned with the production of macroeconomic forecasts. However, I have considerable experience of policy analysis.

As I see the work of the commission, it is as important to have an understanding of broader interactions between policies and the budget as it is to have a background in technical forecasting. It is useful to have commissioners who know quite a bit of technical stuff but, initially, it is the professional staff's responsibility to have the expertise in technical forecasting and the commissioners' responsibility to have a sufficiently deep understanding of the interactions that I mentioned. They can lead, challenge and guide, and that kind of interaction between the members of the commission and the staff can be very productive if it works well. You do not necessarily need the commissioners to have all the technical expertise.

David Wilson: Like Professor Smith, I made it clear in my application and the discussion at my interview that I am not putting myself forward as a professional academic macroeconomist. That is not my background. However, I have extensive experience of working in Government on a broad range of economic matters.

Earlier, I was thinking about how, 30 years ago, I started off in my first role working for Ian Lang on economic issues and how I worked on "A Smart, Successful Scotland" and the Government's economic strategy in the period after 2007. Much

of that involved quite extensive assessment of economic data, seeking to draw out the major issues and understand what was going on in what was an uncertain macroeconomic picture.

I have extensive experience of using, assessing and implementing the insights from technical forecasts. I have experience of more detailed forecasting from the work that I did—some time ago, but for about three years—as a transport economist modelling traffic flows and related information, which gave me a solid grounding in the use of statistical models in drawing out important issues for transport flows. I have sufficient experience to scrutinise, assess and validate technical forecasts, but I am not a technical forecaster by trade.

Murdo Fraser (Mid Scotland and Fife) (Con): Professor Smith, I was interested to read in your application that you are

“interested in long-run fiscal sustainability and the importance of not being misled by public sector accountancy rules.”

Who is being

“misled by public sector accountancy rules”?

Professor Smith: It is easier to talk about the past, so I will do that. In the past, the UK Government made fiscal decisions that were driven by accounting considerations rather than by long-run economic considerations, of which the best example is the private finance initiative. There are strong arguments in favour of public-private partnerships and I am not opposed to them at all, but there is little doubt in my mind that, in the past and perhaps even now, some Governments have embraced PFI because it looks better in the books. It does not show up as borrowing so, when people are looking at fiscal issues, they can say, “The deficit isn’t growing and we’re not building up repayment obligations for future taxpayers.” However, PFI projects build up repayment obligations for future taxpayers every bit as much as Government borrowing does. It would be good if, when Governments assess appropriate ways to fund public investment, the assessments are done in a way that is not biased by the fact that one future burden will show up in the books and the other is rather hidden away.

The Office for Budget Responsibility—in the second leg of its work—has done good work in looking at not just the costs of PFI but the long-term costs of the English system of student support. Public sector pensions is the other area in which there can be a big long-term burden that is not quite as explicit as the fiscal burdens that are born through borrowing. That is the general area in which it is important for Governments to be guided by statistics that give a fair picture.

Murdo Fraser: That is a helpful response. Recently, the committee looked at the Scottish Government’s non-profit-distributing model with regard to some of the issues that it has led to with reclassification under European accountancy rules and what that has meant for the public sector finances. Across Governments, are we getting better at understanding the accountancy rules that you mentioned?

Professor Smith: We are getting better, but there are strong pressures that pull in the opposite direction. Governments continue to be tempted by short-term cash flow issues rather than looking at long-term sustainability issues.

I will give you a UK Government example on the sale of public assets. Mr Osborne, as Chancellor of the Exchequer, said that the more Lloyds Bank shares were sold, the more debt would be paid down. I am not commenting on whether selling Lloyds Bank shares is a good or a bad thing. It might well be a good thing, but it does not pay down the debt. The public sector swaps one financial asset, Lloyds Bank shares, for another, cash in the Treasury. That does not improve the long-term fiscal position. There is still a long way to go on that.

Murdo Fraser: That is interesting. Do you see your role as commissioner as being to shine some light on those areas and ensure that the Government is going in the right direction?

09:45

Professor Smith: It depends on how the commission’s remit develops. As I understand it, we have a well-defined task to do with the scrutiny of the budget, and we are at the beginning of that task. It is important that the commission builds up credibility and does its initial job well. In due course, it will be not for us but for politicians to decide how the commission’s remit should develop.

Personally, given what I disclosed about my interests, I would have some professional enthusiasm for taking a strong role if the commission’s work developed in that direction. However, it is not for me to determine how the commission’s role should develop, except to say that I am strongly of the view that we need to do our current task well and establish our record before we move on to wider tasks—however attractive they may be.

Murdo Fraser: Thank you.

James Kelly (Glasgow) (Lab): I want to follow up on the convener’s initial question about forecasting. More than ever, the forecasts are crucial, because it is not just a question of looking ahead to the future. The forecasts will be used in

the block grant adjustment and ultimately they will feed into the actual moneys that are allocated to the public purse, so it is crucial that they are accurate and that we as the Finance and Constitution Committee—and Parliament in general—have confidence in their accuracy.

You both acknowledged that you are not technical forecasters. There is a team that works on the detail of the forecasts. How can you demonstrate to the committee that you have enough in-depth, hands-on knowledge to be able to interrogate the forecasting process and ensure the integrity and accuracy of the numbers?

David Wilson: There are two important points to recognise at the outset. First, the commission is not starting with a blank sheet of paper. Extensive work has already been done within Government to build up the modelling capability to develop forecasts and assessments across the range of devolved taxes and also for gross domestic product modelling, and that will transition to the commission.

Secondly, the commission has had an excellent start in producing the reports that it tabled following its scrutiny of the budgets for the current year and the coming year. It is building on a strong start, which has identified that, precisely because of the importance of forecasts as part of the overall fiscal framework, it is now even more important to ensure that the assessments are as authoritative, clear and appropriate a judgment on those forecasts as they can possibly be. Like all forecasts, they will never be 100 per cent accurate. However, they need to be developed in a transparent way and to carry authority as the best and most impartial forecasts that are available.

I hope to be able to make a very strong contribution to that work alongside Professor Smith and the other commissioners and with the team that is being built up in the Fiscal Commission. In particular, that might mean drilling down and getting inside the models that have been developed and are being further enhanced, in order to identify the granular, detailed issues that could cause uncertainty about the forecasts. The commission has already made a strong start on that.

There are issues to do with the Aberdeen economy. For example, the challenging situation that the oil and gas industry is facing is a key issue that has been looked at. The commission will have to assess the uncertainties and make a judgment on the considerable lack of data in some areas, and that work is under way. Our strong contribution to that will be to shape and build the information base, the data and the understanding that is available on each of those issues.

James Kelly: You have said a lot about the process, which is important, and about how you, as a commissioner, would drill down into the issues. Will you give us a practical example of how you would do that? It is important that the committee is confident that you do not see your role as simply being to rubber-stamp the process and the forecasts. We are interested in how you will interact in your role.

David Wilson: I will give you an example that is of particular interest to me, which builds on work that the commission has already started on the Aberdeen property market and, by implication, the labour market in Aberdeen and the surrounding area.

In the evidence-taking session with Lady Susan Rice and the other commissioners and the session with Robert Chote, Murdo Fraser picked up on how Scottish earnings are developing and will develop in future. There is a particular issue about how the current situation and trends in the Scottish labour market will impact on future forecasts and outturns of income tax take. The commission has recognised that a distinction might be emerging between earnings forecasts for Scotland and those for the rest of the UK, and the variability of tax take is perhaps the critical issue going forward because of its impact on the overall Scottish budget.

I would bring considerable experience to that area, given my understanding of labour market processes and trends. I can also utilise the mechanisms that we are building up of consultation and dialogue with business organisations and external parties. If we understand the situation on the ground, it greatly helps to provide colour and better information for the forecasts that we will ultimately make.

Professor Smith: I will stick with the same example. Income tax forecasts depend on what we can think of as classic economic forecasts of how the Scottish economy as a whole is doing. That is an important aspect. Income tax forecasts are sensitive to the distribution of income because, at different points on the income distribution, people pay different levels of income tax. Income distribution differentials between Scotland and the rest of the UK will be part of the explanation for how the Scottish tax revenue develops and they will increase our understanding of how economic performance is changing, in relation not only to the overall Scottish economy but to what is happening to income distribution.

In the past seven or eight years, we have seen significant changes in the relative fortunes of different parts of the labour market. I have taken an interest in that area in the past. Good work is already being done on forecasts of the Scottish rate of income tax, and I would be very keen to

pursue and scrutinise that kind of work and help to take it forward.

Ash Denham (Edinburgh Eastern) (SNP): The criteria require you to demonstrate an appreciation of the strategic fiscal landscape in Scotland. What are the main issues that we are facing in the medium to long term?

Professor Smith: In the medium to long term, the main fiscal issue that is facing Scotland is the same as that which is facing the UK and all advanced economies: the impact of demographic change and the ageing population, and the increasing relative health and social care costs of the older part of the population. That is a big challenge, because we all want to ensure that appropriate resources are put into areas such as health and social care, but balancing that need against putting public resources into the needs of the younger generation is going to be a tougher and tougher challenge. To be frank, it means that politicians in all countries will face tough decisions.

One of the reasons for having independent commissions such as the Scottish Fiscal Commission is to provide the challenge and pressure that politicians need. None of us likes to ask hard questions, but having people who ask hard questions and face politicians with tough decisions is a desirable feature of a healthy political system, and the toughest questions are about the interaction of demography and the public finances.

David Wilson: I strongly agree with everything that Professor Smith said about the long-term challenges. Scotland and the UK face an uncertain picture in terms of economic performance and economic developments over the coming years, particularly with the prospect of Brexit. We do not have time to go into how that will play out over the coming period, but it clearly adds a level of uncertainty to the already considerable uncertainty about how the post-recession recovery is developing.

On the key issues for the commission in all of that, what happens in the wider UK picture will happen, but two areas will be of considerable importance to the commission. First, it is critical that we understand differential economic performance and the reasons for it, and that we develop understanding and an assessment of how any differential economic performance between Scotland and the UK will play out in terms of forecasts. The commission's statutory duties are such that, if there is differential performance, we will need to forecast it as it is happening. The commission plays a crucial role in recognising and understanding as early as possible how GDP in Scotland may develop vis-à-vis the UK. Understanding economic performance is critical to the wider fiscal framework and the differential

funding that may become available to the Scottish Government.

Secondly, with regard to our forecasts, if the Scottish Government continues to take decisions under its discretionary tax powers, it will be crucial to have a sense of how that might play out in the tax take. Additional rates of tax are already a live issue, and having the capability to properly forecast the Scottish Government's chosen policy will be key for the commission.

Ash Denham: Thank you.

The Convener: Are there any other questions from members?

Members: No.

The Convener: Ash Denham covered the area that I wanted to go into.

This is an unusual appointment process—it must be the largest recruitment panel that anyone has ever been in front of. [*Laughter.*] I thank both witnesses for answering our questions. The committee will consider in private—under agenda item 5—the evidence that you have presented to us, before we publish a short report setting out our recommendations to Parliament.

Thank you very much. I will suspend the meeting briefly to allow a changeover of witnesses.

09:59

Meeting suspended.

10:03

On resuming—

Air Departure Tax (Scotland) Bill: Stage 1

The Convener: Item 4 is to begin our consideration of the Air Departure Tax (Scotland) Bill at stage 1 by taking evidence from the Scottish Government's bill team. I welcome the Scottish Government officials James McLellan, who is the bill team leader and the head of devolved taxes, Mike Stewart, who is the bill manager, and John St Clair, who is the lead solicitor for the bill and senior principal legal officer.

Members will have received copies of the bill and its supporting documents, along with the Scottish Parliament information centre briefing. Before we question the Government officials, I ask Mr McLellan to make an opening statement.

James McLellan (Scottish Government): Thank you for the opportunity to make a short opening statement on the Air Departure Tax (Scotland) Bill. The devolution of air passenger duty formed one of the recommendations of the Smith commission report, which was published on 27 November 2014. Paragraph 86 of the report recommended that

"the power to charge tax on air passengers leaving Scottish airports will be devolved to the Scottish Parliament".

The proposal and others in the Smith commission report were taken forward in the Scotland Act 2016, which received royal assent on 23 March last year. Following the commencement of section 17 of the 2016 act, the Scottish Parliament now has the power to legislate for a tax that will replace APD in Scotland.

In the programme for government, the Scottish Government announced that a bill for the replacement of APD would be introduced in the first year of this parliamentary session. It also reaffirmed the Scottish Government's commitment to delivering a 50 per cent reduction in the overall burden of ADT by the end of the session and abolishing the tax when resources allow.

As the committee is aware, on 14 March last year, we published a policy consultation. It generated a range of views and we received 160 responses. We are grateful to all who contributed their time and input to the process and we have worked carefully to refine our legislative proposals, reflecting on the responses that we received.

In addition to the public consultation, the Scottish Government has established a stakeholder forum, which is chaired by the Cabinet Secretary for Finance and the Constitution, to

provide expert input into the development of our policy and legislative proposals for ADT.

The Air Departure Tax (Scotland) Bill was introduced on 19 December 2016. It makes provisions for air departure tax, which is a tax to be charged on the carriage of chargeable passengers on chargeable aircraft by air from airports in Scotland. The tax is to be payable by aircraft operators. Under terms that have been agreed by the Scottish Government and the UK Government in the fiscal framework, APD will cease to apply in Scotland from April 2018 and, if the bill is enacted, ADT will replace it from that date.

The bill comprises 42 sections, five parts and three schedules, which establish ADT and set out the key concepts underlying the tax, including the identification of "chargeable passengers" and "chargeable aircraft". The bill sets out the tax rate structure and rules that determine which flights are to be treated as "connected" for ADT purposes. It provides for administrative matters relating to the payment, collection and management of the tax, and it makes further provisions, including in relation to subordinate legislation.

Details on exemptions, tax bands and tax rate amounts are not included in the bill and will be delivered at a later date. Sections 8 and 10 make provision for the Scottish Government to set exemptions, tax bands and tax rate amounts through subordinate legislation. The approach to tax bands and tax rates is consistent with the approach that has been adopted in relation to other devolved taxes in Scotland.

Revenue Scotland, which is Scotland's tax authority for devolved taxes, will be responsible for the collection and management of ADT, as it has been since 1 April 2015 for land and buildings transaction tax and the Scottish landfill tax.

The financial memorandum accompanying the bill sets out the estimated costs to the Scottish Administration. It gives details of the impact on the Scottish budget and costs for Revenue Scotland and the Scottish Fiscal Commission in administering and forecasting the tax. It also demonstrates that the Scottish Government is committed to providing sufficient and appropriate resources to support the new tax powers.

The Scottish Government is currently undertaking a strategic environmental assessment. The key remaining step of the SEA process is to publicly consult for 12 weeks on our tax rate amount proposals, and that will be accompanied by an environmental report that outlines the results of the environmental assessments. We will provide further details on the timing of that in due course.

We look forward to considering and reflecting on the evidence that the committee will gather at stage 1 of the bill process and to discussing our legislative proposals with you this morning.

The Convener: Thank you for that comprehensive overview from the Government officials' perspective.

I note that the Government has consulted on the proposals to replace air passenger duty and has published an analysis of the consultation responses. Will you summarise the main points that were made in the responses and explain how the consultation helped to shape the bill?

Mike Stewart (Scottish Government): We received a substantially greater number of responses to the public consultation than we did with the consultations on the two previously devolved taxes. We were very grateful for the views that were expressed in the consultation.

A key finding was that, although the policy consultation paper was predominantly focused on the structure of the tax and how it would be collected and managed by Revenue Scotland, the majority of views that were expressed were on the Scottish Government's wider proposals on the tax rate amounts and in particular the proposals to reduce by 50 per cent the overall burden by the end of the current parliamentary session and to abolish it when resources allow. That drove a large number of responses to particular questions. As well as those views, which were predominantly driven by members of the public, a large number of organisations opposed the proposals.

Among those who responded to the consultation questions on the tax structure, the overwhelming consensus was to retain—generally at the high level—the same structure and administration arrangements as for UK APD. That was driven not just by airlines and the aviation and travel sectors but by other organisations, even those that might have objected to the proposal to reduce the tax. A minority of respondents gave suggestions on how the tax might be collected slightly differently, but the key message that we took from the responses was the need to look closely at how the UK manages the tax.

In addition to the consultation, we engaged extensively with our stakeholder forum, which James McLellan mentioned. We established the forum on 6 August 2015. So far, it has met five times, and we will continue to engage with it as part of our overall stakeholder engagement approach. The forum's strong consensus was to model the structure and administration of the tax on the UK's approach.

I will go into the specifics of how the consultation responses informed views. That overwhelming consensus has largely driven the

policy discussions and analysis, which have led to the content of the bill. Part 1 of the bill is entirely consistent with the powers that have been devolved. Part 2 defines the terms “chargeable passenger” and “chargeable aircraft”, and the definitions used are exactly the same as those used for UK APD.

On the exemptions, which I am sure we will come on to later, we are considering our overall approach in the round, and we will also be looking at further technical and legal details. However, there was largely consensus on those exemptions, too.

The tax bands are not in the bill. We propose to bring forward detail on that aspect at a later date. The strong consensus on the issue was to stick with the two-band UK APD approach. In essence, band A is short-haul flights—all flights within Europe and to most of northern Africa all the way up to and including Libya but not Egypt—and band B is any other type of flight. We are still reflecting on the banding structure, because that is a crucial part of the tax rate amount decisions that we are analysing. Further detail on tax rate amounts will be brought forward at a later date.

On the administration of the tax, the Revenue Scotland and Tax Powers Act 2014 provides the general framework for the collection and management of devolved taxes in Scotland. The starting point on how ADT would be collected and managed was to reflect on the views expressed in the consultation responses, our wider engagement with stakeholders and our discussions with HMRC and other bodies. We then looked at what legislative changes would be required in order to introduce those.

Part 4 and schedule 2 contain further legislative provisions that are considered necessary for ADT and that were not covered in the Revenue Scotland and Tax Powers Act 2014. The bill has concepts of registering for the tax in advance and paying tax at the same time as making a tax return.

We have taken parts of the collection and the management of the tax that are specific to UK air passenger duty, such as the concept of tax representatives and having revenue protection measures in place for handling agents. Taking into account the difficulties that some aircraft operators, particularly smaller airlines, experience with their accounting systems, the bill allows operators to apply to Revenue Scotland to use special accounting schemes. The views that were expressed in the consultation were almost overwhelmingly in support of all of those arrangements.

I hope that that answers your question.

10:15

The Convener: That was a very comprehensive answer. You explained that, in some areas, the policy and the direction of the bill follow the provisions for air passenger duty. Are there any particular areas in which we are doing things differently for air departure tax compared with the legislation for air passenger duty?

Mike Stewart: There is really only a small handful of differences in the detail of the bill. The overriding point is that, although the provisions in the bill look slightly different from the equivalent UK APD provisions, which are largely in the Finance Act 1994, the actual effect is broadly the same.

The first key difference relates to the tax return. In fact, most of the key differences relate to the administration of the tax. We have two methods of making a tax return—a quarterly tax return and an occasional return. The provision on occasional returns, which is broadly the same as the provision in the UK tax, is for aircraft operators that only operate infrequent flights or at particular times of the year. For them, making a quarterly tax return is not the most efficient method of complying with their liabilities under the tax. Under APD, the standard return is monthly, but we went for quarterly returns. That is one of the key differences.

Another key difference is on tax representatives. Those are essentially separate contracting bodies with which the aircraft operator enters into a contract to provide particular services. The UK APD has a requirement that any aircraft operator that does not have a business establishment or other fixed establishment in the UK is required to have a tax representative. We considered that in the course of developing the bill and, in order to ensure that we are fully compliant with European Union law, we have changed that geographical requirement to apply to any aircraft operator that does not have a business establishment or other fixed establishment within the European Economic Area. That is one small difference. Other than that, there are not too many differences—those are the key ones.

The Convener: Murdo Fraser has a supplementary on that.

Murdo Fraser: It is a follow-up to that question from the convener. Mr Stewart, you pointed out some fairly minor technical differences. Is it fair to say that, in effect, you are just replicating the existing UK system in Scotland, albeit that you are giving it a different name? You are calling it air departure tax instead of air passenger duty, but in effect it is the same tax.

Mike Stewart: If you are comparing the effect of the provisions of the bill and the structure of the

tax that is in place at the moment, you are correct that, if the bill is passed and put into effect, the practical effect on the ground and the collection of the tax will be broadly the same.

In relation to the collection and management of the tax and how Revenue Scotland makes its decisions on compliance with the tax and a risk-based approach, that is a matter for Revenue Scotland and its approach may well be different from the way in which HMRC collects and manages the tax. The driving factor was not to assume automatically from point zero that the structure of the tax would be copied across. We allowed people to bring forward alternative proposals through the consultation paper. Some people did that in minor ways, but there was an overwhelming consensus from the stakeholders and the consultation responses, and that played a large part in the decisions that we arrived at on the bill.

The Convener: In the early part of the evidence session we are trying to concentrate on the specifics of the bill. After that, we can get into wider issues. Adam Tomkins has a specific question on the bill itself.

Adam Tomkins (Glasgow) (Con): Yes, convener—thank you.

Am I right in understanding that tax bands, tax rate amounts and tax exemptions are not covered in the bill?

Mike Stewart: Yes, that is correct.

Adam Tomkins: Am I right in understanding that, with regard to APD, exemptions, tax bands and tax rate amounts are currently provided for in primary legislation?

Mike Stewart: Yes, that is correct.

Adam Tomkins: And am I right in understanding that, in the LBTT legislation of 2013, exemptions with regard to LBTT were laid out in primary legislation?

Mike Stewart: That is correct, yes.

Adam Tomkins: So why is ADT being treated differently? Why are those matters not in the bill but being left to ministers?

Mike Stewart: That is a fair point. Clearly, there was an overwhelming consensus among the stakeholders and in the responses to the consultation that we should retain the current exemptions. With regard to the exemptions, we have provided a power in section 8 of the bill that allows regulations to be brought forward through subordinate legislation. We are considering our overall approach to exemptions in the round. There are some further technical and legal matters that need to be worked through. I cannot comment

more specifically on those, but we certainly recognise—

Adam Tomkins: Sorry, but am I to understand from your answer that the reason why those matters do not appear in the bill is because you are not ready?

Mike Stewart: No, it is not that we are not ready. We know our general approach; it is just that we consider that it would be best to—

Adam Tomkins: If I am wrong that you are not ready, what is the reason for the matters of bands, rates and exemptions not appearing in the bill?

James McLellan: As Mike Stewart set out, we want to take the opportunity of the bill process to further consider our overall approach to exemptions. In terms of—

Adam Tomkins: But hang on—

The Convener: Adam, let Mr McLellan complete his answer.

Adam Tomkins: Sorry.

James McLellan: Just to reassure you, we will come forward with further details in due course and certainly well in advance of ADT coming into effect in April 2018.

Adam Tomkins: I am not reassured, and the reason for that is that the Smith commission agreement says:

“The power to charge tax on air passengers leaving Scottish airports will be devolved to the Scottish Parliament.”

It does not say that the power will be devolved to the Scottish ministers; it says that it will be devolved to the Scottish Parliament. So I ask again: why is the structure of the ADT legislation manifestly different from the structure of the primary legislation for the current United Kingdom tax and manifestly different from the structure of the LBTT legislation, for which exemptions were set out in the bill rather than left to the subsequent delegated authority of ministers?

James McLellan: The comparison with the UK process is interesting, and we can look at that. The UK has an annual finance bill, which provides a regular process to amend primary legislation, but we do not have that in Scotland. That is a key difference between the approach that we took to the ADT bill and the existing UK legislation.

Just to reiterate, we are still looking at exemptions, and we will provide further details in due course, and certainly well in advance of the bill coming into effect.

Adam Tomkins: That addresses the difference between the bill and current UK APD legislation, but it does not address the difference between the

bill and the Scottish Parliament’s LBTT legislation. Why should exemptions appear in the LBTT primary legislation, which was enacted by this Parliament, and not in the ADT bill?

James McLellan: That is because of the range of responses that we had in the consultation process. Mike Stewart mentioned that the range was far more significant than with the other fully devolved taxes. There are a range of views and we are considering them.

Obviously, there is the option to introduce the exemptions through secondary legislation, but that could also be done via amendments to the bill at stage 2 or 3.

Adam Tomkins: Does the course of action that the Scottish Government currently anticipates involve lodging Government amendments to its own bill?

James McLellan: We are still considering our options on that. I would not describe it as our stated intent at the moment—it is too early in the bill process to say.

Adam Tomkins: As things stand, it is more likely that those matters will be dealt with by subordinate legislation than by amendments to the bill.

James McLellan: We are still considering the options for exemptions.

The Convener: We will get the minister before us at the end of this stage, which will be a chance for us to come back and rehearse these arguments.

Adam Tomkins: I think that I might.

The Convener: I suspect that you will.

I have a supplementary question. What consultation process will you carry out on these matters before any regulations or other statutory instruments are introduced in Parliament?

Mike Stewart: With regard to tax rate amounts, we are currently in the middle of a strategic environmental assessment process that the Scottish Government is required by law to carry out because the effects of the 50 per cent reduction in the overall burden of the tax are considered likely to have an environmental impact. Before any legislation containing the tax rate amounts, at least, is laid before Parliament, we will be required to publicly consult on those plans over a 12-week period. That remaining step still needs to occur. There will be a further opportunity for people to comment in a public consultation on the tax rate amount proposals.

The current thinking is that the tax bands are inextricably linked with the tax rate amount proposals. We set out in the bill the concept of a standard rate that applies typically to economy-

class flights, a premium rate that applies typically to first-class and business-class flights and a special category rate. There was overwhelming consensus on the tax rates but a bit more of a difference of opinion on the tax bands, which are much more interrelated with the tax rate amount proposals.

We are currently considering what is the best approach on the tax rate amounts, and there will be a further public opportunity to comment on those proposals before legislation can be laid before the Parliament on the tax rate amount proposals.

Murdo Fraser: On the question of tax bands, just so that we are clear, is it the Government's current intention to replicate the existing system by having a band A and a band B?

Mike Stewart: I would not be able to provide too much detail on that at this point. Perhaps that is something to ask the cabinet secretary when he appears before the committee. The overwhelming consensus among the stakeholders is that we should have that two-band structure, because it provides a simple and effective measure and will minimise any disruption for airlines. A driving focus of our decisions will be how efficient and convenient the tax structure is and how it enables us to deliver our policy objectives on the tax rate amount proposals.

Murdo Fraser: I have one more question on tax bands. Did the Government look at whether it would be possible to have a different band for domestic flights within the UK, or was there a legal impediment to doing that?

Mike Stewart: That idea was proposed in the consultation responses. Virgin Trains, for example, is particularly interested in that idea, because it is concerned about the impact on the rail sector if there was a reduction in the amount of air departure tax that is charged on flights within the UK, especially where those flights provide competition. That is one of the options that we are looking at, but I cannot say anything more about it at this point.

Murdo Fraser: You are not aware of a legal impediment to it, though.

Mike Stewart: It is one of the options that we are examining at the moment.

The Convener: Willie Coffey has a question specifically on the policy memorandum to the bill.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): It is on the issue that has just been raised. In your opening remarks, you talked about why the tax bands, rates and exemptions are not included in the bill at this stage. You seemed to say that that is consistent with some of the other measures that are being introduced, and you mentioned

landfill tax. Can you clarify why we are dealing with those things separately and not including them in the bill at this stage?

10:30

James McLellan: The point that I made in my opening statement was that our approach to rates and bands—setting them out through subordinate legislation—is consistent with the approach that we have taken on the fully devolved taxes. The rationale around that is partly to ensure that there is consistency, but another relevant point—to pick up on the exchange about the differences between the Scottish and UK approaches—is that the UK has an annual finance bill and we do not, which gives us more flexibility. Making changes to rates and bands through subordinate legislation will enable us to reflect operational issues and other feedback that we get once the tax goes live.

Willie Coffey: That is the advantage, as you see it, of doing it in this way in Scotland.

James McLellan: Yes.

Willie Coffey: When will we see the detail emerging? We are just short of a year away from bringing in the new provisions. When will we be able to see and scrutinise the detail?

James McLellan: We will bring forward details of that shortly. As I set out in the earlier exchange, it will be done either through subordinate legislation after the bill is passed—we hope that the bill will be passed before the summer recess, so we would look to bring forward subordinate legislation in the autumn—or via amendments to the bill at stages 2 or 3.

Willie Coffey: Convener, is there time for me to ask one more question?

The Convener: Yes, if it is specifically about the bill. We will then move on to the financial memorandum issues.

Willie Coffey: It is specifically about the bill. In the light of the conversation that we have just had, I wonder why the detail of the connected flight rules has been kept in the bill rather than that being left for discussion, consultation and review as things develop in Scotland. It seems to involve the same provisions.

Mike Stewart: The connected flight rules are in schedule 1 to the bill. Again, the wording of the legislation is slightly different, but the effect is the same. The connected flight rules are linked to section 9 with regard to determining for the purposes of tax the final destination of a person's journey.

Someone may take a flight from Edinburgh down to Heathrow and connect to another destination—perhaps a long-haul destination that

is not offered by a Scottish airport. Under air departure tax, assuming that the flights are connected, the final destination will be the long-haul destination and not just Heathrow, so air departure tax will be charged on that further-away point rather than just on the shorter point. However, the effect is the same.

The Convener: Patrick Harvie has a supplementary on the specifics of the bill.

Patrick Harvie (Glasgow) (Green): It is on the provisions that allow ministers to set bands and rates by regulations. The analysis of the consultation responses shows a very strong degree of concern about the environmental impact of the changes. That is barely mentioned in the policy memorandum, but the analysis of responses says that it was by far the most commonly expressed concern. Did the Government actively consider introducing to section 10 elements that ministers would have to consider before reaching a view, or before proposing regulations? Was that actively ruled out, or was it simply not considered?

James McLellan: Sorry, are you asking about consideration of the environmental impacts before—

Patrick Harvie: I have seen many pieces of legislation that require ministers to give consideration to certain factors before exercising functions such as making secondary legislation or ministerial orders. Was that actively considered and ruled out, or has it simply not been thought about?

James McLellan: We are very much alive to the environmental effects and we are explicitly considering that as part of the development and the consideration of our approach to rates and bands.

Patrick Harvie: I appreciate that that is happening at policy level. You told us that the strategic environmental assessment is being conducted but, given what was said a few minutes ago, we are being asked to pass the bill before we get a chance to see the assessment.

I am asking whether, in the development of the bill, any consideration was given to introducing criteria into section 10 that ministers would have to consider before they proposed rates and bands?

Mike Stewart: No.

Patrick Harvie: Thank you, that is very clear.

The Convener: We will move on to financial memorandum issues.

James Kelly: Mr McLellan, in your opening statement, you said that the financial memorandum gave an explanation of the impact on the Scottish budget. Bearing in mind that the

policy objective of the introduction of ADT is, as the policy memorandum describes it, a

“50% reduction in the overall tax burden”

by the end of this parliamentary session. I do not see any acknowledgement or assessment in the financial memorandum of the fact that that will obviously mean a reduction in the Scottish budget. Can you give us an explanation?

James McLellan: In the financial memorandum, we have included the currently available OBR forecasts of what would be raised through APD in Scotland. That gives us the OBR’s assessment of how much would be raised if the current policy was continued and if it matched policies in the rest of the UK. As has been discussed, decisions on what the banding structure would look like, on how we would distribute the 50 per cent cut across that structure and on the phasing of the cut have not been finalised, so it is not possible at the moment for us to estimate the potential impact on the Scottish budget. That is certainly one of the things that are being considered as part of our approach, so we are looking at the affordability of the 50 per cent cut for the Scottish budget, as well as looking at wider stakeholder views and the available economic evidence to support that.

James Kelly: You must acknowledge that paragraph 10 of the policy memorandum states that the Scottish Government objective is a 50 per cent reduction in ADT by the end of the parliamentary session. Table 2 in the financial memorandum shows, as you pinpointed in your answer, the OBR forecast that revenues in 2021-22 would be £378 million if we continued in the current vein, yet that is clearly not the objective of the legislation, so it is not true to spell out that the revenues gained in 2021-22 would be £378 million. If there was a 50 per cent reduction, it could logically be argued that the revenues would be reduced to £189 million and, if there was a reduction, that would impact on the public finances. Do you not think that the financial memorandum should have given some explanation of that?

James McLellan: The figures that we have set out in the financial memorandum have been derived from what we were able to put in the bill. The decisions on how we distribute the tax and the cut, and on when it is phased in, will determine what the revenue impact will be.

On the mechanics of how it will work, there will be a deduction to the Scottish block grant from April 2018 and we have set out the approach for how that will happen. In effect, it will be based on an estimate of the APD tax raised in Scotland in 2017, and that will be reconciled once we have outturn. There will be a deduction to the Scottish block grant in 2018 based on that number.

How much revenue comes in will depend on where we get to with the policy for reducing the tax and with its phasing through the bill process. There may well be a difference between the amount that is taken off and the amount coming in, depending on where we get to with decisions on the tax rates and bands.

James Kelly: But you accept that the Scottish budget will reduce following the introduction of the proposed legislation.

James McLellan: If we reduce the tax by 50 per cent, depending on when the change comes in, the revenue coming in from that tax will be less than the amount that is taken off the block grant. The adjustment to the block grant will be indexed to UK Government policy. The future size of that will depend on UK Government policy.

The Convener: I need a bit of clarity here. The proposed legislation will not itself decide the rates and bands. Therefore, the amount of reduction in the Scottish budget will not be decided by the bill; it will be decided later by what is proposed on rates and bands in a statutory instrument.

James McLellan: Yes, that is right. Ultimately, the revenue impact will be determined by the rates and bands.

James Kelly: Yes, but the policy objective, as outlined in paragraph 10 of the policy memorandum, is

“a 50% reduction in the overall tax burden”.

The Government clearly has an objective of reducing the tax. Is that the case?

John St Clair (Scottish Government): Perhaps I could intervene. My colleague is purposely being strict in his language. He is not moving on from the effect on the revenue coming in from the APD replacement to the total effect that the measures might have on the Scottish budget, because there are all sorts of variables. For example, if a reduction in the proposed tax led to an increase in economic activity, that could impact on other tax receipts. We are steering clear of answering that question directly, but we are not trying to avoid it.

The Convener: That is something that the minister will have to be prepared for when he comes before us. He should be able to provide an answer to James Kelly's pretty reasonable question.

James Kelly: I will conclude my questions, but my position is that it is a glaring omission in the financial memorandum that there is no assessment or acknowledgement of the on-going impact on the Scottish budget.

Patrick Harvie: I will follow up on that point. There is clearly a question about the direct impact

on the Scottish budget from the revenue that would be raised under the Scottish Government's policy intention as it stands, rather than under the letter of the bill.

There is also a question about the potential indirect consequences for the Scottish budget. A great deal of the written submissions that we have received from private sector organisations that clearly have an interest in this policy area are trying to persuade us that there will be an increase in other forms of revenue through economic activity that is generated through the Government's policy. As far as I can see, the financial memorandum makes no attempt to go into that. Is the Government conducting, or has it conducted, any assessment of what it predicts to be the revenues specifically coming to the Scottish Government, as opposed to revenues going to the UK Government, as a result of the indirect effects of the policy being put into practice?

James McLellan: We are certainly analysing the potential economic effects of our stated policy objective as part of the decision making. That covers a number of strands. One of them considers recent studies that have been published. There have been studies by PWC, York Aviation and Edinburgh Airport, from which I believe you are taking evidence later today. We are looking at the existing evidence that is available. We are also studying international comparisons that could be helpful. We are looking at countries such as the Netherlands and Ireland that have taken a similar approach by either cutting or abolishing such a tax to see what that can tell us about the revenue effects. We are also undertaking our own internal assessment of the potential effects.

10:45

Patrick Harvie: I appreciate that. You say, “We are studying,” and, “We are analysing.” Has that work has been completed or is it still on-going? Is a policy intention already being signalled prior to the completion of that work and before we know what the effect will be?

James McLellan: Based on the existing available evidence, the Scottish Government has set out its policy aims, which are covered in the policy memorandum. We are continuing to model the effects before taking a final decision on the rates and bands.

Patrick Harvie: So the results and methodology of that work will be published before a proposal on rates and bands is put forward.

James McLellan: We would certainly look to bring forward that analysis, either as part of the strategic environmental assessment or to support the subordinate legislation on rates and bands.

The Convener: We turn to wider financial issues. Ivan McKee has a question.

Ivan McKee (Glasgow Provan) (SNP): To my mind, the stated aim of the reduction in APD is to generate economic activity. However, the 50 per cent reduction is configured across the board, and it need not apply to all classes and types of travel. I want to drill down to get a wee bit more detail on that. First, I want to find out whether the structure of the bill is able to support an approach of tackling the issue in different ways; I will give you some examples to consider. Secondly, I want to follow up on what analysis you may or may not have done on the economic impacts.

Looking at the type of air traffic that generates economic activity, we might want to encourage inbound tourism rather than outbound tourism, which could have a negative economic effect because people who might otherwise holiday here would be encouraged to holiday elsewhere.

On the business side, we may want to target certain markets to bring in foreign businesspeople to work here and to encourage links with Scotland through direct flights. We might decide to prefer some markets over others, and we might end up with a situation in which we want to reduce tax on long-haul flights but not on shorter flights, for the reasons that I have just mentioned.

In the domestic-versus-international sphere, we might not want to encourage domestic flights where there is an overground or train alternative—we will be hearing from Virgin Trains in the next session today—whereas we might want to encourage direct flights from Scottish airports to international destinations.

A whole range of policy scenarios could come into play. Rather than using a blunt instrument that does not give us the desired economic benefit, we may want to focus on targeting specific types of passengers and specific markets, and on discriminating—if that is the right word in this context—between inbound and outbound passengers.

Does the structure of the bill as it is drafted allow us the flexibility to do that, or will we simply end up with a blunt instrument such as the UK has at present? Have you done any economic analysis on different types of segmentation in the market with respect to different passengers and different destinations?

James McLellan: I can say a bit on that, and Mike Stewart may want to add some detail on the bill itself.

As you said, there is a range of issues. As far as our stated economic goals are concerned, we believe that the power over APD will provide us with the ability to put new arrangements in place

that better support our strategic objective of generating sustainable growth by improving international connectivity to Scottish airports; helping to generate new direct routes; sustaining existing ones; and, importantly, increasing inbound tourism.

Ivan McKee talked about analytical issues such as inbound tourism versus outbound tourism. Ensuring that the structure of the rates and bands minimises leakages from the economy through outbound tourism is certainly something that we are considering. We want to ensure that whatever is introduced maximises the opportunities.

The other debate that Ivan McKee raised was about long haul versus short haul. Again, that is something that we are looking at. I suppose that there are the strict economic impacts, but there are also wider impacts for rail and how that feeds into it. The short answer is that we are considering all those issues as part of our economic assessment. We would look to design the rates and bands of the tax in a way that effectively maximises the benefits based on the picture that we have pulled together, which is as comprehensive—

Ivan McKee: The question is whether the structure, as proposed, allows the flexibility to cope with all those variations.

James McLellan: It will do. I do not know whether Mike Stewart wants to say anything additional on the specifics of the bill.

Mike Stewart: If you are talking about the fundamental parts of the ultimate legislation, both primary and secondary, those are bits of detail that are still to be set out. I would view those as being most focused on the tax bands and the tax rate amounts. On the structure of the bill, the core concept of the tax is that we have to pay due regard to the scope of the powers that have been devolved to the Scottish Parliament.

Ivan McKee: Sure.

Mike Stewart: We have tax rates set out there. That is the only part of the core structure of the tax in terms of the interrelationship between the tax rate amounts that is in the bill. The greatest opportunities for delivering those and considering those types of areas will be covered in legislation that is still to be put forward.

Ivan McKee: So the bill would allow for that. You might end up with 10 or 20 bands, depending on where you want to target. You might have different rates for different types of passengers, or different rates depending on whether someone comes here from elsewhere and then goes home again, or vice versa. You might have a different rate depending on how long they spend here. Is

there flexibility to do all that within the structure that is proposed?

Mike Stewart: On the types of issues that you mentioned latterly, such as how much people spend and so on, we would have to pay due regard to the legal constraints but also try to keep the tax simple.

James McLellan: One of the guidelines on the devolved taxes is that we should keep to the principles of Adam Smith. One of the generally acknowledged features of the UK tax is its simplicity. It is one of the most cost-effective taxes in terms of its collection and management. We would have to have regard to the impact of any policies that were reflected in the structure of the tax before going to those types of areas, and consider the impact that there would be on airlines and, overall, how the aviation and tourism sectors work.

Ivan McKee: Sure. Airlines have very complicated software that does all that stuff anyway, so it is an industry that is not unused to very complicated charging structures.

My final point is that I look forward to you producing analysis on that and following up on what Patrick Harvie asked about earlier. The segmentation of the different market aspects is something that you will analyse in due course—is that correct? Will you cover the economic impacts?

James McLellan: Yes. That is one of the many factors that we are including as part of our economic analysis. We will bring further details on that to the committee in due course.

Ivan McKee: Thank you.

Neil Bibby (West Scotland) (Lab): My question is on the economic impact. The policy memorandum was published at the end of last year. Paragraph 7, which is on strategic objectives, says that the Scottish Government believes

“the tax to be an increasing burden on airports, airlines and passengers which holds back air route development.”

However, at the start of this year, Glasgow airport reported a record 9.4 million passengers in 2016, and Edinburgh recorded 12.4 million passengers in 2016—up 11 per cent on the number for 2015.

I appreciate that there is a debate to be had about the rate at which the tax will be set, but why does the Scottish Government believe that it is necessary to change the tax rate if passenger numbers are already increasing? What other factors and policies to support aviation growth have been considered? For example, if it is concerned about increasing tourism, has the Scottish Government analysed the effect of a fall

in the pound in attracting investment? Does it consider that there may be an increase in passenger numbers and tourism without a change to the APD rate?

James McLellan: There is an upwards trend in air passenger numbers not just for Glasgow and Edinburgh airports but globally. The trend reflects the return to economic growth and the increase in available airline capacity.

On the current rates, APD is one of the highest taxes of its kind in the world. If you look at aviation tax across the world, you see that the UK is second only to Chad. The competitiveness of the tax rate is something that we are concerned about and are looking at.

We believe that cutting the tax burden helps to ensure a more level playing field with the many other European airports that often compete to secure airlines and routes. Doing so enables us to develop new routes and sustain the existing ones.

Neil Bibby: We have touched on the principles of taxation and on Adam Smith’s principles of proportionality and the ability to pay. Following Ivan McKee’s question about the impact on groups, has the Scottish Government done an analysis of airline passengers in Scotland? Do airline passengers tend to be the poorest in society or the most well-off? What impact will the tax have on those groups?

James McLellan: The impact on specific groups is another thing that we will factor into our analysis. We will consider a range of things.

Ultimately, the effect will depend on the decision around rates and bands.

Maree Todd (Highlands and Islands) (SNP): I will ask about the impact on climate change. The United Kingdom Committee on Climate Change advised that any increase in emissions from reducing taxation with ADT is likely to be manageable. Its assessment is that the increase in emissions will be about 4 per cent and that we will be able to offset that by making other changes in the transport sector. Do you agree with that conclusion? Did the people who put forward opinions in response to your consultation agree with it?

James McLellan: We recognise that the policy will have environmental impacts. You are right to say that the Committee on Climate Change advised that the increase in emissions should be manageable. We have said that we will work harder in other areas to mitigate the effects of the increase and that the environmental impacts are being carefully considered through the strategic environmental assessment process.

Maree Todd: Four per cent does not seem to be a huge difference. Is there any debate about that figure?

James McLellan: Not that I am aware of.

11:00

Maree Todd: As a representative of the Highlands and Islands, I am particularly interested in hearing what people had to say about exemptions. Currently, Highlands and Islands airports are exempt from APD. Is such an exemption likely to continue?

James McLellan: In the consultation responses there was overwhelming support for keeping a similar tax structure and similar exemptions. As I said in response to earlier questions, at this stage we cannot say more about specific exemptions, but we have committed to come forward with further details shortly.

Maree Todd: What is the timescale? You said something about the bill going through in September, I think, and the detail being available subsequent to that. Is that correct?

James McLellan: We hope to get the bill passed before the summer recess—that is certainly what we are planning to do. Issues that must be brought forward through subordinate legislation will be dealt with after that, in autumn—in September or October.

Maree Todd: Is it likely that tax will need to be charged on ticket sales that have already been made? Tickets go on sale about 340 days before travel. Is that correct?

James McLellan: On those specific tickets, that is correct. The other thing to add is that through the other routes that we have—we mentioned the stakeholder forum, which draws on a range of stakeholders, including industry stakeholders—we are trying to give the airlines as much certainty as possible ahead of final decisions on rates and bands.

The Convener: Adam Tomkins wants to follow up on that issue.

Adam Tomkins: I want to ensure that I understood James McLellan's answer to Maree Todd correctly. You are talking about retrospective taxation by secondary legislation. What legal advice has the Government sought or taken to ensure that proceeding in that manner will not be vulnerable to judicial review in the Court of Session?

James McLellan: I apologise if my answer caused confusion. I was not talking about retrospective changes to taxation; I was picking up on the specific point about the timing of the details of tax rates, bands and exemptions.

Adam Tomkins: Perhaps I misunderstood, in which case I apologise. However, if you are talking about applying a tax in autumn to a ticket sale that preceded the point of tax liability, is not that retrospective taxation?

James McLellan: The tax will come in from 1 April 2018, and from that point we will have full details of the tax rates and bands.

Adam Tomkins: When you say that the tax will come in in April 2018, do you mean that that is when the bill will take effect, or that the instruments of secondary legislation that establish the bands and rates will take effect from then? I am not sure that I understand the chronology of all this.

James McLellan: Yes—everything. Our ambition is to have the bill passed by summer recess, and to deal with additional points that were not covered, on things such as exemptions, rates and bands, through secondary legislation well in advance of the tax coming in from April 2018.

Patrick Harvie: I want to follow up the climate change questions, because I do not think that we needed to throw quite such a soft ball.

The UK Committee on Climate Change, which of course has a formal role in advising the Scottish Government on climate change under the Climate Change (Scotland) Act 2009, has clearly recommended that by 2050 aviation emissions need to be limited to 2005 levels. That allows for some degree of demand increase, but not unlimited demand increase. The UK Government nominally accepts that advice; whether we think that its actions are consistent with achieving that outcome is another matter. Does the Scottish Government, in framing its aviation tax, take the view that aviation emissions by 2050 need to be limited to 2005 levels, or does it have no policy on that?

James McLellan: We will need to write to you with further details on the specifics of our commitment to overall aviation emissions and how that feeds into our climate change plan.

Patrick Harvie: So the bill's development has not been informed by any policy context for what you expect aviation emissions to be in the future. There has been no consideration of the policy intentions in that respect.

James McLellan: There has been, in terms of the overall effects. That is set out in our approach to the strategic environmental assessment. An update to that will be produced as part of the 12-week consultation. In that, we will set out our assessment of what we think the effects will be in that regard.

Patrick Harvie: So that work is still on-going. In framing the bill and the policy intentions in relation

to the replacement tax, the Scottish Government has not yet formed a view on whether it will comply with the UK Committee on Climate Change's recommendation that aviation emissions by 2050 should not exceed 2005 levels. Is that correct?

James McLellan: Again, until the full analysis is done of the effects, we cannot comment. On the specifics of the target—

Patrick Harvie: Forgive me—I will be more robust with the minister, but I think that even an official is able to comment on whether the Government has a view on that question.

James McLellan: We would be happy to write to you on the specifics of the target. The assessment of the environmental impacts that we have done to date has been published, but I am afraid that I do not know the details of how that interacts with the wider UK target. As I said, we would be happy to write to you.

The Convener: When you write to us, will you also make sure that you tell us how you will go through the exercise of considering the rates and so on, and what the process will be for introducing the secondary legislation? The issue is not just the primary legislation; it is also the secondary legislation that will follow. It would be up to members to propose different rates. They could suggest rates that would go up, which would have one kind of environmental impact, or they could suggest rates that would stay the same, which would have a different environmental impact. We are considering the principles of the proposed legislation. However, I think that Patrick Harvie asked some fair questions.

That leaves Liam Kerr to deal with information technology matters.

Liam Kerr: I have a couple of quick wrap-up questions.

First, I want to follow up on something that Neil Bibby asked about. I understand from James McLellan's answer that no particular analysis has been done of the socioeconomic profile of people who fly. Can we extrapolate from that that no analysis has been done on who is flying, where to and why with regard to business travel, or on what can be expensed in terms of passenger duty? Is it correct to say that such analysis has not yet been done?

James McLellan: That is a core part of the analysis that we are undertaking. We are trying to pick up the inbound/outbound dynamic and the categories of people who take flights—in other words, whether they do so for leisure or business. We are looking at that.

Liam Kerr: I note in the financial memorandum an estimate of £120,000 to set up the IT to make

the system work. Given the costs involved and the difficulties experienced in the setting up of various other IT projects, how accurate is that estimate of £120,000? It feels rather low.

James McLellan: The estimate that is provided in the financial memorandum for the Revenue Scotland IT cost is Revenue Scotland's best estimate of the resources that will be needed to deliver ADT. It is the cost of developing a new ADT module that will be added to the existing Revenue Scotland tax collection system—it is not something completely new. The costs were based on a robust business case, which was compliant with Treasury green book methodology and approved by the Revenue Scotland board. The costs were thoroughly scrutinised.

Liam Kerr: I have a final, quick thought. We have received various representations—indeed, Ivan McKee suggested this—that the way to stimulate economic activity, growth and the economy in this instance is by reducing tax. I presume that the converse is true and that if we increased tax, that would potentially stifle the economy, growth and jobs. Do you accept that analysis? How will that issue ultimately inform the thinking about bands and policy?

James McLellan: Our broad position is that APD is one of the highest taxes of its kind in the world. As we have set out before, we believe that cutting the tax will give Scotland's airports a competitive advantage over other airports that are trying to attract new routes. That is the overall rationale behind the policy.

The Convener: I thank the witnesses for coming along this morning.

I suspend the meeting to allow a changeover of witnesses.

11:12

Meeting suspended.

11:16

On resuming—

The Convener: Colleagues, our next piece of business is to continue our consideration of the Air Departure Tax (Scotland) Bill at stage 1. We are joined by our second panel of witnesses: Tim Alderslade is chief executive of Airlines UK; Jonathan Hinkles is managing director of Loganair Ltd; Gordon Dewar is chief executive officer of Edinburgh Airport Ltd; and David Horne is managing director for the east coast route at Virgin Trains.

Members have received copies of the submissions from our witnesses, so we will go straight to questions. If I asked all the witnesses to

make an opening statement, we might not finish our business today.

You will be aware that the bill does not specify the proposed rate of taxation to replace the existing United Kingdom air passenger duty. The Parliament will consider that further down the line. However, some of you have experience of the administrative arrangements that govern the current system. Can you suggest any ways in which the new devolved Scottish system's administrative arrangements could improve on those of the current system? What changes would you like and why? Whoever wants to kick off should feel free to do so.

Tim Alderslade (Airlines UK): Airlines UK has been clear that we want the new arrangements to be as similar as possible to the UK Government arrangements. That is vital for our members, so we were pleased that the Scottish Government's consultation documents stipulated that the arrangements, including those for the bands, capital cities and exemptions, would be as similar as possible to those of the UK. Our members want the arrangements to be as simple as possible and as close as possible to the UK's arrangements.

Gordon Dewar (Edinburgh Airport): As members know, the administration is much more of an issue for the airlines. It is obvious that we are talking about one of the most efficient tax collection methods—indeed, I think that it is the most efficient. Currently, two people in total manage the system for the whole UK. That simplicity has huge benefits, including benefits for the consumer. It is clear to the consumer what the tax is and what they are paying for.

There is potentially an argument for variation in levels, although we want to keep the bands and the administration similar. It is clear that that is for secondary legislation. We are probably more interested in the policy's impact through economic benefits.

Jonathan Hinkles (Loganair Ltd): Similarly, we think that keeping the tax collection structure and the back-of-house administration that goes into collecting the tax as close as possible to the arrangements in the rest of the UK would be helpful. Clearly, we have views on the levels of APD, which we will perhaps come to later. However, the administrative burden from the structure and collection of the tax is a big factor in an airline's life. We want the arrangements to be along the lines of what already exists.

The Convener: Is the collection process as outlined in the bill satisfactory and robust, or would you like changes to it?

Jonathan Hinkles: We have no fundamental issue with what is proposed in the bill. We are content with suggestions that were made and all

that we have heard in meetings that the Scottish Government has held to consult airlines in preparation for the bill.

Tim Alderslade: Likewise, the quarterly online collection is more than adequate for our members—we have no problem with that at all. Currently, we have a monthly paper process, so the proposed arrangement is an improvement and we are happy with it.

The Convener: Does David Horne have any views from the trains perspective?

David Horne (Virgin Trains): I have no views on the administrative issues that the airlines face.

The Convener: One of the key concepts that underlie the proposed tax involves having the definitions of chargeable passengers and chargeable aircraft follow the structure of APD. What is your view of the definitions that are used? Do you wish to see any changes in the definitions that are in the bill in order to improve the tax's operation? That question is probably directed to Tim Alderslade and Jonathan Hinkles in particular.

Tim Alderslade: We are happy to have in place the same arrangements on chargeable passengers and chargeable aircraft as those that currently exist in the UK, and we do not want any changes. We are happy with what we have seen.

Jonathan Hinkles: The definition of chargeable aircraft protects the exemption for small aircraft of below 5.7 tonnes in take-off weight, which operate many of the lifeline air services. That is fundamental to us. Another element that is important to us is retaining the existing exemptions for connected passengers and passengers who travel on routes that are operated under a public service obligation with the Scottish Government or with local councils, depending on the administering body for the PSO.

We are broadly comfortable with the proposals. It is essential to maintain the existing exemptions in the definitions of chargeable passengers and chargeable aircraft.

The Convener: I will try to bring in some of the members who did not get a chance to ask questions earlier. To enable that to happen, we need to ask a more general question first. Ivan McKee will do that.

Ivan McKee: I ask for your comments on the points that I made earlier. The main point of the tax reduction is to generate economic activity. However, there is a differentiation to be made, because encouraging some types of travel would reduce economic activity in Scotland, and the positive economic impact that might be encouraged has quite a range.

In the Edinburgh Airport analysis, two scenarios were based on the type of passengers who might be encouraged to travel. That is a passive approach—you merely said that one thing might happen or the other thing might happen—but I come at the issue from the angle of thinking about what we want to happen and how we can make it happen. Notwithstanding the comments that have been made about keeping things as simple as possible, do you have any comments about the type of travel that we might want to encourage for the good of the whole economy and not just to get more people buying your duty-free goods?

Gordon Dewar: There are two fundamental impacts of reduction, whatever form it takes. A reduction in the price of travel in some shape or form makes travel more accessible to people—as a meaningful change, that has more impact on people who are on low incomes.

The bigger driver for the wider economy is encouraging further connectivity, which involves new routes and new airlines coming in. It is clear that different routes will have different impacts. It is fair to say that long-haul routes—particularly those that bring in visitors—are seen as attractive propositions. Equally, the whole of Europe is fertile ground for inbound tourism for Scotland. That volume would have a bigger impact, even though the rate of growth in long-haul flights might be higher if the reduction was significant.

Even though offering more choice to Scottish residents will undoubtedly allow them to go to different places, it will probably not generate a huge amount of extra outbound trips, because people are largely constrained by affordability and time rather than choice. However, if we make Scotland accessible and affordable for inbound visitors—direct services are the best way of doing that—we will see a large increase in their number. We see that every time that happens. In fact, every single long-haul route and most of the short-haul international routes that have arrived at Edinburgh over the past four years have seen a majority of inbound passengers over outbound passengers.

Ivan McKee: Are there international comparisons? Denmark and Norway, for example, have 20-odd million passengers going through their main airports in Copenhagen and Oslo alone, never mind all their other airports. Although those countries are of a similar size to Scotland, they are a step above where we are in the number of travellers that go through them. In that scenario, would significantly more outbound travel come through?

Gordon Dewar: Do you mean outbound travel from Scotland?

Ivan McKee: No—I mean travel into those countries. I do not know whether you have analysed that. That is where we want to get to—we want to get to the level where 20-odd million passengers are going through Edinburgh, as in Copenhagen.

Gordon Dewar: Absolutely. As far as the 20 million is concerned, Copenhagen airport operates in a slightly different way. Denmark has a home-based hub operator, so a lot of the passengers in Copenhagen—as in Heathrow—are through passengers who make little difference to the local economy. It is therefore not necessarily a great comparator.

If the duty is reduced significantly—if it is halved, for example—we will see a significant interest from airlines in bringing in new routes. Carolyn McCall of easyJet has already said on the record that she would increase the number of passengers in Scotland by 30 per cent on the back of such a reduction. Michael O'Leary has been robust about his intentions to increase passenger numbers.

If we make a reduction quickly and clearly, we will probably get an overresponse, because the airlines will want to demonstrate the impact. I say an overresponse because we should not forget that, even if we halved the amount across the board, we would still have the most expensive air passenger duty anywhere in the world, other than Chad. All that we would do is reduce our discrepancy and our disadvantage; we would not get ahead of the curve in any shape or form.

There was a question earlier about whether we should be worried when there is already success. I remind members that we got back to the 2008 level of passenger numbers only last year. Although Edinburgh is in the lucky position of having a strong economy that is growing well, which we are doing well out of, we would not say the same about Aberdeen, Prestwick and many other airports.

Tim Alderslade: It is important to say that last year, we had 251 million passengers across the UK. It is great that Edinburgh and Glasgow airports are doing well, but that is not unique across the UK. With the exception of one or two airports—Liverpool and Durham Tees Valley, for example—most airports in the UK are experiencing strong passenger numbers. However, as Gordon Dewar said, that is only getting back to where we were in 2008, before the economic crisis.

It is also important to say that in Edinburgh, Glasgow and Aberdeen, we can still use existing runway infrastructure to have significant growth. I rebut the earlier point that, because we are doing well in Scotland and across the UK, we need a

cap on passenger numbers. That is absolutely not the case. When we have spare capacity in existing infrastructure, we should be doing everything that we can to get more routes in and more connectivity.

The Convener: Does Jonathan Hinkles want to respond?

Jonathan Hinkles: On economic activity, we believe that there is a strong opportunity to make a difference in the Highlands and Islands by reciprocating the current exemption for flights from the Highlands and Islands so that passengers who depart from Glasgow, Edinburgh and Aberdeen on flights to the Highlands and Islands are lifted out of APD, as it is today, and ADT, as it will be in the future. That would give the fastest return on investment of the Scottish Government's funding, which would in cash terms be well below £2 million a year—that is the tax that is currently collected from those customers.

We make that proposal because about a quarter of the passengers who travel on those routes are funded directly by a public service such as the national health service, which funds patients who are travelling, or councils. About a quarter of the tax income from customers who fly from mainland airports to the Highlands and Islands is already funded by the Government. On the basis of not wishing to perpetuate a money merry-go-round, it would make sense to reciprocate the exemption.

Growing the traffic that travels into Highlands and Islands airports would also allow us to generate more income for Highlands and Islands Airports Ltd—HIAL—through the charges that it levies on airlines such as Loganair, which would reduce the subsidy that it has to take from the Government. There is a fairly direct case for that before we get into the strong economic impacts from encouraging tourism and encouraging business in the Highlands and Islands.

We carry about half a million passengers a year on routes that are exclusively in Scotland. All but one of those routes crosses a body of water, so trains are not a substitute in the market that we serve. From an environmental perspective, travelling between Glasgow and Stornoway, for example, by car and ferry generates in sum—depending on how that is done and the number of passengers travelling—more emissions than a direct air journey.

There is a strong case economically—it includes the indirect economic benefits to the Highlands and Islands—and environmentally for reciprocating the exemption. An early step that we would like to be taken under the Scottish Government's powers to levy the air departure tax would be to lift out of ADT the routes from

Glasgow, Edinburgh and Aberdeen that depart to the Highlands and Islands.

11:30

The Convener: Maree Todd will ask you questions on rural areas, and David Horne should not worry, because we will get to trains, too. However, first we have a couple of supplementaries.

Ash Denham: I am an Edinburgh MSP. We know that Edinburgh airport is Scotland's busiest airport and is a big employer in the area. I direct my question to Mr Dewar. A number of studies have been carried out, including one by Edinburgh Airport, on what the economic impact of reducing the tax would be. Will you share with us some of your findings, particularly on the wider economic impact on Edinburgh and the surrounding area, and on the monetary value—the gross value added?

Gordon Dewar: Our model is based on halving the tax, on the basis of the Government's statement that it wants to reduce the tax take. Of course, the position would vary if there were different bands and rates. We think that the value across Scotland of the reduction would be 10,000 extra jobs—they would largely be in the tourism industry, with other jobs for those directly involved in the aviation sector from new routes and new airlines, for example—and about £300 million in gross value added.

Even more interesting is that there would quickly be a positive revenue take. There might be a modest lag as things took time to bed in and we got the expected growth but, if we had a clear statement and policy, airlines would be quick to respond.

The benefits that we would get from additional passengers, albeit that they would be paying lower APD, would bridge some of the gap. We would also get other revenue and income streams, with new taxes from employment, for example. One of the biggest wins would be a reduction in the payment of unemployment benefits as people got back into employment and were able to live independently as a result. All that is before we get into all the indirect economic value of the wider spend of, for example, tourists in the Highlands and Islands.

Across the piece, reducing the tax would be one of the best investments that we are likely to see, because we would get not only an economic return but a cash return into the Government's coffers.

Ash Denham: You heard us talk in the earlier session about the tax being one of the most expensive in Europe and possibly beyond. How

does the Scottish Government's intended direction fit in with the wider context? What are other countries doing on APD?

Gordon Dewar: With the exception of Norway, which has recently announced an increase in the tax—I think that it is about to find out the folly of doing that—every country has gone in the opposite direction, and most have abolished the tax. The only benchmark is with Chad—that is interesting, as I have never compared Scotland to Chad before—because it is the only country that we are on a par with.

Every country in Europe is down at the €2 or €3 tax level, so we are an outlier. That is counterintuitive, given that we are at the north-west periphery of an island, we are incredibly dependent on inbound tourism and tourism is the largest employer in the country. The logic seems to be perverse. In effect, we could reverse or at least address the situation by halving the tax. We need to remember that, even if we did that, we would still have the most expensive tax in Europe. Halving the tax would be a pretty logical policy to pursue.

Tim Alderslade: We reported on the issue last year. If Scotland were to push ahead with a 50 per cent reduction, that would improve its short-haul flights standing by 38 places on the rest of the UK and, for long-haul flights, it would rank the ninth highest in the world, which would leave England and Wales at the top of the league table for cost. Although Scotland would still be one of the most uncompetitive nations in the world for short and long-haul flights, it would move down the league tables. That is quite a useful analysis of where Scotland would sit compared with where it sits currently.

I hasten to add that I do not think that we should compare ourselves to Chad when it comes to air ticket taxes and charges.

Ash Denham: I have one more question, which is on trains. A lot of business travellers fly from Edinburgh to London, and the train network is concerned about the impact that reducing the tax might have. Does David Horne see that as a factor?

David Horne: We said in our written submission that an APD reduction will have clear benefits in generating better international connectivity. We all want to improve trade and attract more tourists to Scotland, which will bring economic benefits.

On domestic routes, our analysis is that, if APD is reduced on domestic routes as is being discussed, that will result in a switch of modes from rail to air. We are concerned about that. Rail has had a great success story over the past few years, with more services coming to Scotland and investment in improving services. Further

investment that will benefit Scotland's and Edinburgh's connectivity is either under way or being developed. We need to protect that, because it is as important as the international connectivity that Scotland seeks.

The Convener: I am going to go deeper into the rail issues later—I know that Murdo Fraser has a question on that. First, there are supplementaries on the previous point.

Neil Bibby: Just for the record, I did not say that there should be a cap on passenger numbers. I asked a legitimate and reasonable question about why it is necessary to cut APD when passenger numbers are increasing. I hear what has been said about passenger numbers getting back to 2008 levels, but we had a global financial crash in 2008 and obviously there were wider economic reasons for that.

Why have passenger numbers at Edinburgh and Glasgow increased over the past couple of years? Irrespective of whether or not there is a cut to APD, do you expect passenger numbers to increase again over the next year?

Gordon Dewar: We have to come at that from the wider market view. The European aviation market is growing at about 5 per cent per annum. If an airport's growth is at 5 per cent per annum, it is in line with the marketplace. That is a result of a fairly benign position where the UK economy has been doing reasonably well overall, comparatively speaking, and oil prices are low so fuel prices for airlines are reasonable and manageable. We are in an upswing in terms of the general economics.

We should take comfort only from above 5 per cent growth; otherwise, we are just marking time with the wider economy. That is one of the reasons why we are getting back to 2008 levels—it is a market correction. We are seeing quite a significant move from Prestwick to Glasgow—that is not market growth overall; it is just market transfer.

Edinburgh has done well because our economy has done exceedingly well when compared with the rest of the UK. I would also like to think that we have done something right in the way we engage with airlines and point out the benefits that they can have. We are out there competing with hundreds of airports around the world, trying to make the case why airlines should make very risky and large investments in Edinburgh and Scotland rather than somewhere else. We have got good at that, and we have moved out of shared ownership with Glasgow—the gloves are off and we are prepared to fight our corner to get our fair market share within Scotland.

All that is true, but I do not want to overencourage the idea that we are doing marvellously and that it will all continue. That is not

the case. The economy is driving most of it; there is a modest upside in some of the things that we are doing, but we will have to work really hard. My competition is not with Prestwick or Glasgow or Aberdeen. In the case of easyJet and Ryanair, I am competing every day against Copenhagen, Barcelona, Rome and all our other European competitors. That is the market that we should be looking at, and we are massively against the wind; physically we are further away, so airlines have to burn more fuel and use more staff time to get here, and our tax is the highest in Europe by a long way.

Neil Bibby: You recorded an 11 per cent increase in passenger numbers in 2016. I press you again: do you expect passenger numbers to increase over the next year—in 2017?

Gordon Dewar: They will grow in 2017, but do not expect them to grow by that much. The aviation market is highly leveraged against general economic growth, and there are also some local conditions. If the economy is growing at 2 per cent, aviation will grow at 4 or 5 per cent. The converse is true. From 2008 to 2010, most airports were seeing double-digit declines. It is not as if growth just lands in our lap; we have to work hard at it.

Of course, in a constraining or flat market, airlines work even harder to find the margin elsewhere. To put this in context, APD, or departure tax, is £13, but my average top charge to an airline is under £10. I am out there competing and offering discounts to airlines in order to entice them away from Copenhagen, for example, but before I even start, I cannot get close to matching APD. Even if I made it free, we would still be more expensive than most other European airports because of the departure tax.

Tim Alderslade: It is also worth putting on the record that, according to the International Air Transport Association, the average profit per passenger for airlines is \$7, while UK APD is £13. That puts it into context. Over the past 10 years, our members have spent upwards of \$50 billion buying 470 new aircraft, with 400 more on order. Some are replacing existing aircraft, while others are new aircraft that airlines are trying to get into new destinations in order to set up new routes and get greater connectivity. They will go where they can get the biggest bang for their buck. Although easyJet is a UK carrier, it has bases all over Europe. If you are only making several pounds or several dollars per passenger, if you have to, you will go to Copenhagen or elsewhere in Europe, where you will make a bigger profit.

The Convener: I believe that Patrick Harvie wants to raise some economic issues, too.

Patrick Harvie: Good morning. Gordon Dewar has talked about some of the economic analysis that was included in his written submission, and I want to look at that. You have talked about the potential for additional revenues to be generated for the public purse; I think that you mentioned Government coffers, but it was not clear which Government you meant. In your submission, you cite value added tax, only a proportion of which is to be assigned to the Scottish Government; corporation tax, which is not being devolved at all; and savings from the welfare or social security bill, which, again, is not devolved. You also do not seem to have included any analysis of the proportion of people working in the aviation industry who are presently claimants. Finally, you mention employment taxes, using an Oxford Economics study from 2013-14, at which point the personal allowance was significantly lower than it is now and lower again than it is intended to be by the end of this parliamentary session.

Is it not clear that not only is there no indication in your analysis of the proportion of the purported additional revenues that will come to the Scottish budget but you are relying on research and studies that are woefully out of date and cannot be considered as a reliable forecast of the revenues that might come through the devolved taxes?

Gordon Dewar: I welcome the request I heard made earlier when I was sitting in the public gallery for the Government to carry out a full and frank analysis of the issue.

Patrick Harvie: I would welcome that, too.

Gordon Dewar: Such an analysis has been missing for some time now. I am using 2013-14 data because I have been arguing this case for seven or eight years now. We are a long way from where we started.

If the Government did that analysis, it would be fantastic, because if we were to commission it, the accusation would be, "They would say that, wouldn't they?" That would be unhelpful. After all, we would commission it only because no one else would. The company in question—Oxford Economics—is very reputable and it was independent as far as its findings were concerned, but the right answer would be for the Government to undertake a full analysis of the revenue and economic benefits of this move.

Patrick Harvie: I hold my hands up and say that I have probably said, "They would say that, wouldn't they?" myself from time to time.

However, just to boil this down, I note that your written submission, which still cites the Oxford Economics research, talks about generating

"£900 million in revenues from Income Tax and £1.3 billion in Revenues from National Insurance".

National insurance is not devolved, either. There is a substantial gap between £9,440, which is what the personal allowance was when that research was carried out, and the £12,500 that the Scottish Government intends the threshold to be by the end of the current parliamentary session. People would now need to be earning significantly above £12,500 in order to generate any meaningful income from the income tax on theoretically generated employment. After all, we are talking about the tourism and hospitality sector, which is pretty notorious for poverty wages.

11:45

Gordon Dewar: I would not agree with the last part of your comment.

Patrick Harvie: You might if you were on the minimum wage.

Gordon Dewar: I am closely associated with VisitScotland and the Scottish Tourism Alliance and I understand the economics of tourism. The sector is a very successful employer and has lots of opportunity for growth—

Patrick Harvie: But you would agree with the basic point that employment generated would have to involve wages significantly above £12,500 in order to generate any income tax revenue—

Gordon Dewar: I would agree with the point that analysis should be done by those who understand these things.

Jonathan Hinkles: Across the Highlands and Islands network, the average salary at Loganair is almost double the level that Patrick Harvie is talking about. When it comes to job creation in our organisation, salaries will be above that level.

Patrick Harvie: I am perfectly prepared to take your word for it. We are mostly talking about induced employment in the wider economy, though—hotels, tourism, nightlife and the rest.

Jonathan Hinkles: I understand.

The Convener: Before I bring in Maree Todd, can I clear up this Chad matter? In FIFA rankings, Scotland is 67th and Chad is 151st. I understand how that is arrived at, but who came up with the analysis that says that Chad has the highest air passenger tax in the world and the UK the second highest?

Tim Alderslade: It was in a World Economic Forum study. The WEF does a study every two years on tourism, air taxes and airport charges. We were 136th out of 137 countries. Chad was below us but did not submit any figures, so it is conceivable that we were last.

The Convener: Wow. I am really glad that I asked.

Gordon Dewar: The reason why we are so ineffective in terms of pricing in airports is all down to Heathrow.

The Convener: We will get the clerks to source that study for members, because it has been mentioned a few times.

Maree Todd: I would agree with the concerns expressed by the panel. To characterise the tourism industry as an entirely low-wage economy would be doing it a disservice. It is a vital industry in the part of the country that I represent.

Jonathan Hinkles said that the fares of 25 per cent of passengers to and from Highlands and Islands airports are directly paid by Government bodies, councils or the NHS. I do not need much convincing that those are lifeline flights. Will you give me some more detail about that? Does it include staff going on training, for example, or participating in networking opportunities? I used to work for the NHS and I regularly had to fly simply to maintain my ability to do my job.

Jonathan Hinkles: Yes, it includes those categories. We take the data of customers booking with us and can clearly identify those travelling under our NHS patient travel arrangements. That is around 50,000 passengers a year out of the half a million that we carry in Scotland. The customer provides us with information when they book, such as an email address. We can ascertain where the customer works from the email address of the person who has booked the flight for them, which might be registered to the NHS, the police or councils. That is how we came up with those figures.

Maree Todd: That might be an underestimate, because I used to book flights using a personal email address.

Jonathan Hinkles: It may be, yes.

Maree Todd: Some of the submissions received in the consultation discussed whether all flights from the Highlands and Islands should be categorised as lifeline flights. There was a question about whether flights from Inverness airport to sun and ski destinations should be included. Do any of you have any information about what proportion of flights from Highland and Islands airports that might account for?

Jonathan Hinkles: We believe that it is relatively small. If we look at Highlands and Islands Airports Ltd's total throughput of its route network—which is around 1.1 million passengers a year, including Inverness—Loganair accounts for more than half of HIAL's business. If we take into account the Inverness to London air services, which are growing significantly, and the Inverness to Manchester and Dublin flights that we provide,

the remaining number of services, from Inverness to sun and ski destinations, is relatively small.

Of course, Inverness airport is trying to encourage that number to grow, and we support that, because it brings down the overall cost-sharing burden of running those airport facilities. From memory, I think that Inverness had six flights this year to Majorca, versus probably about six a day at the height of the season at Gordon Dewar's airport—something of that nature. It is a miniscule part of the wider picture for the Highlands and Islands network.

Maree Todd: I also want to ask about alternative modes of transport. You said that all routes but one go over a body of water. Is the one route that does not go over a body of water the Wick to Edinburgh route?

Jonathan Hinkles: It is indeed the Wick to Edinburgh route, which might as well be a journey over a body of water given the surface transport alternatives. That is why that route still flies.

Maree Todd: The alternatives are an eight-hour train journey or a six-hour car journey.

Jonathan Hinkles: Indeed.

We have direct competition, in terms of ferry services, and we see a direct interaction between ferries and air travel. For example, the introduction of the road equivalent tariff to the Islay ferry market in 2012 has had a direct impact on the Glasgow to Islay air service. Passengers leaving Glasgow pay APD but ferry fares have been brought down through the introduction of RET.

Against that background, we believe that there are strong benefits in reciprocating in the new tax the exemption that currently applies to flights from the Highlands and Islands—essentially through the form of aid of a social character—to flights to the Highlands and Islands that depart from Glasgow, Edinburgh and Aberdeen.

Maree Todd: Did I understand correctly that you had done some climate change impact comparisons? For example, did you compare the flight from Glasgow to Islay with single-occupancy-car and ferry journeys?

Jonathan Hinkles: We have done outline work. I will not profess that we have had a bevy of consultants working away in the background on that. We have looked at CalMac Ferries' average emission figures and the figures from the longer northern isles ferry routes, which Serco NorthLink Ferries operates from Aberdeen and Scrabster. In essence, the longer the ferry journey, the worse the emissions, and ferries tend to depart from the closest point from which they can sail, which normally implies that there is a long car journey to get to the ferry in the vast majority of areas where we are in competition.

The Convener: Liam Kerr had some questions on that.

Liam Kerr: There are some quite big claims in the evidence that Virgin Trains submitted, such as the claim that

"33% of the southbound rail market would switch to air"

if APD were to be abolished. On what evidence are you basing that? From what studies have you drawn those conclusions, and how robust are they?

David Horne: The conclusions are based on conventional transport modelling, using the information that we have available to us at the moment. Clearly there is a range of outcomes.

All the research that has been discussed in evidence today needs some proper scrutiny, as was mentioned earlier. However, we believe that the research that we have undertaken is robust. We know that rail competes strongly with the aviation market and we know that the initiatives that we have launched in the past year have been successful in attracting customers from airlines to rail, as well as in having boosted Scotland's connectivity.

We know that the market is competitive, which is why we are extremely concerned that a reduction in the tax that is paid by air passengers will result, on domestic routes, in a switch from rail to air, which will fundamentally undermine the case for further investment in the rail routes between London and Scotland.

Liam Kerr: Have you robust evidence that suggests that your customers are making an active choice to take the train because they do not want to pay a £13 charge, and that if that charge was only £7 they would choose to do something different?

David Horne: We have evidence that customers compare the prices of the modes that they can choose as well as factors such as journey times and connectivity. They consider whether they want to fly to Heathrow and then make the journey into the city centre, for example, or get directly to the city centre. They consider a number of things, and we absolutely know that price is one factor. That is why—

Liam Kerr: Yes—but I am asking about the 50 per cent reduction in the tax.

David Horne: It is clear that in transport modelling the prices of alternative modes are aggregated prices: the whole price that a passenger would pay for an air fare, including taxes, would be compared with the rail fare. In our analysis, we have applied the proposed reduction in the tax element, and the results that we have shared reflect that effect.

Liam Kerr: Right. I think that you are saying that your conclusion is that, if the airlines were suddenly able to display a £7 reduction in their fares, that would cannibalise 33 per cent of your rail market.

David Horne: Our research says that that would be the case on south-bound rail.

Liam Kerr: What do the airlines say about that?

Gordon Dewar: I will not speak for the airlines; I will speak for Edinburgh Airport. As a former public transport modeller and rail operator, I have never seen elasticities in impacts of anything like that scale. I do not recognise where the numbers come from or how they are plausible. However, I am very happy to be in a competitive market, and I will stand on the customer service and the choices that we offer. It is a bit galling when a heavily subsidised industry asks for its competitors to be taxed in order for it to be competitive.

David Horne: For the avoidance of doubt, our services between London and Scotland are not subsidised. This year, we paid £280 million in premium to the Government. I think that per passenger that equates to slightly more than airlines pay under band A for aviation passengers.

Gordon Dewar: That does not, however, take account of Network Rail—

The Convener: I have enough debates between politicians to control. A few members want to ask supplementary questions, so the witnesses will get another chance. Another three folk want to contribute on trains. Murdo Fraser has the first question.

Murdo Fraser: Thank you, convener.

The Convener: I am sorry, Liam—have you finished?

Liam Kerr: No. I was on a roll, convener.

The Convener: My sincere apologies. On you go.

Liam Kerr: I want to ask Mr Dewar about the figures. In your submission, you say that a reduction in APD could mean an extra 18 million passengers being flown from Scotland. In your analysis, where would those passengers come from and where would they go to?

Gordon Dewar: The additional passengers would largely be driven by a bit of economic uplift. The cost reduction would generate some outbound Scotland-based travel, but that would be very modest.

If we consider what is happening in a growing market, we see that we are pretty flat on domestic travel, for example, but that growth in international travel is up 20 per cent. Some of that travel is

outbound, but the vast majority is inbound because we are making it easy for people to come to Scotland for the first time through the attraction of the new routes. That is driven not by a £6.50 or a £37.50 reduction in fare prices—although that will contribute—but by the fact that more routes can start because it has become economically and financially viable for airlines to start them.

Liam Kerr: Your submission makes a number of suggestions about the positive economic impact of the change. Logically, you would have gone on to say that there would be a potential negative impact on the train service, the supply chain to the trains and the jobs that are associated with those. Has that analysis been done?

Gordon Dewar: There are definitely different impacts in different segments of the market. It is natural to say that in a well-established, mature and competed-for market—in this case, the domestic rail market—the opportunity for economic growth from that market is lessened. However, if long-haul air travel markets are opened up where there has previously been no really attractive proposition to come to Scotland, we will see massive increases there. Europe sits fairly in the middle, but it is, of course, critical because it has such a massive pool of existing and future travel. Long-haul travel can grow at very high percentages, but it will never be a huge part of total travel.

The real win involves going to places from which people genuinely cannot currently get easy or affordable access to Scotland. When we do that, we see people responding in huge numbers. When we have a route change from an indirect connection—via London, Amsterdam, Paris or wherever—to a direct one, we typically see a threefold or fourfold increase in the number of people making that trip, which is pretty heroic, in the first place. We know that that is strong, and that is the average.

12:00

Take easyJet's Hamburg route as an example. Obviously, Hamburg is not far in terms of distance and, therefore, travel time, but it was really inconvenient to get to because people had to go via one of the hubs. When that route opened up, travel between the Hamburg area and Scotland increased tenfold—80 per cent of that travel was Germans coming to Scotland.

Liam Kerr: Is there an argument for disaggregating the conversation? At the moment, it seems that we are talking about reducing APD or changing it across the board when, in effect, what we should be doing is talking about international air travel and having regard to alternative travel structures. For example, do we

need to be thinking in a more sophisticated way about what we can do to stimulate the more northerly airports, which are in areas where there are fewer alternatives? Rather than talk about a blanket reduction in APD, do we need to start talking about Edinburgh airport perhaps taking a hit while Aberdeen airport gets 0 per cent APD?

Gordon Dewar: I could start at the legal end of that discussion and tell you that you would not be able to achieve that under the existing legislation.

Murdo Fraser: We are changing the law.

Gordon Dewar: We should let the economy speak. What we are seeing is that Scotland, which is being led by Edinburgh Airport at the moment because the company is competing effectively and are putting out pricing offers to airlines—there is nothing to stop our competitors doing that, and they do so aggressively. There is a winning agenda, which we should back. The winning agenda is not that of Edinburgh Airport; it is the Scottish economy, the Scottish tourism sector and the education sector—which is the largest driver of passengers to Edinburgh these days, and involves exporting people as well as people coming in. We have a hugely strong market, so we should create the economic conditions that will allow it to flourish.

Too much tampering leads to complexity, which starts to undermine the value of what is being done and leads people to start playing with things over which they do not have as much control as they would like—I include myself in that. You have to acknowledge that the market will speak: we should not be playing a game involving what is up the A9 or across the M8. We are trying to get into a competitive environment with Europe and the rest of the world. That is the reality. This is not about how we manage what is within Scotland; it is about how we make people want to come to Scotland in the first place.

If you were to make Inverness airport tax free—oh! It is already! The impact of that has not been that all the airlines are piling into Inverness at the expense of Edinburgh. What has happened is that people who fly from Edinburgh pay the £13 tax because airlines fly from there to Copenhagen.

Tim Alderslade: On that point, under current EU law—which applies as long as we remain a member of the EU—it would be illegal under EU state-aid rules to reduce APD for one airport but not for another that is within something like 60 miles of it. The Government has considered the issue across the UK in response to this debate, and has uncovered a number of challenging legal issues, which is why, so far, it has shied away from taking action.

The Convener: I want to turn back to trains. Tim Alderslade wanted earlier to make a point

about trains: the next question will let us get back to the subject.

Murdo Fraser: I want to go back to David Horne and follow up some of the earlier questioning about trains.

I would have thought that it was self-evident that something that affects the cost competitiveness of trains versus airlines is bound to depress the number of journeys that are taken by train. I would be interested to hear more specific evidence about the claims that you are making about reductions.

The Scottish Government's policy intent is a 50 per cent reduction in APD, but it has not specified whether that is an across-the-board reduction, how that might be split into band A and band B and so on, or, indeed, whether the bands will be retained or some new banding introduced.

From the point of view of Virgin Trains, if the reduction in APD were to be targeted at long-haul routes, which has been proposed, and domestic flights were left with APD at current levels, would that satisfy your concerns?

David Horne: In simple terms, yes it would. Our concerns relate entirely to the domestic routes, where we compete strongly with air. We welcome Scotland's continued international outlook. We all want Scotland to thrive: we benefit from a strong Scotland in our core market. Scotland is important to our business; if it can attract more international flights through the policy, that will be good for Scotland and we would support it. Our concern is that reducing APD on domestic routes will simply achieve modal switch, which would be damaging for environmental policy objectives, and for economic objectives because of the loss of connectivity that would result in the medium to long term.

Murdo Fraser: Okay. If I understand you correctly, you are saying that a reduction in APD for long-haul flights would be complementary to provision of rail travel and could, therefore, have an economic benefit by bringing more people to Scotland who might then use rail services while they are in the UK.

David Horne: Absolutely.

Tim Alderslade: There is a slight issue on short-haul flights. At the moment, we are comparing like with like because we are comparing journeys from Edinburgh or Glasgow down to London. Most of the services for our short-haul domestic carriers like FlyBe are routes such as Exeter to Aberdeen, Exeter to Newcastle or Norwich to Aberdeen. It is very unlikely that someone will get a train to run those services. I completely buy the argument that David Horne makes about the straight journey from Edinburgh to London, but if we want to promote domestic

connectivity from Scotland to secondary regions and cities within the rest of the UK, reducing the tax on short-haul flights by 50 per cent will have an impact on that.

Reducing APD on short-haul flights would not have any impact on interlining through London. We are talking about going from A to B—Edinburgh or Glasgow to London. Someone who is interlining through Heathrow to go to the States is unlikely to go into Euston station and get another train through to Heathrow; they will go via Heathrow to interline out of the airport.

That is my argument on trains and planes.

Murdo Fraser: I get that, but connecting flights to an international flight would be exempt.

Tim Alderslade: From which airport?

Murdo Fraser: All airports. If I flew from Aberdeen or Edinburgh to San Francisco—

Tim Alderslade: If you were going from Edinburgh to New York, for example, and you were interlining—

The Convener: Let Murdo Fraser finish his point.

Murdo Fraser: As I understand the legislation, a passenger pays APD on their point of destination. Therefore, if I flew to San Francisco from Edinburgh and the policy was to scrap APD for long-haul flights only, I would not pay it, regardless of whether I went via Heathrow or somewhere else.

Tim Alderslade: If the policy was to scrap APD, that would be correct. Currently, you would pay APD at the long-haul rate.

Murdo Fraser: I have a question for Mr Horne. There is a headline in a Scottish newspaper today that says:

“Richard Branson on collision course”

with the Scottish Government over APD—I might be paraphrasing slightly—which, I think, refers to the evidence from Virgin Trains to the committee. However, I assume that Virgin Atlantic Airways, which is a member of Mr Alderslade’s organisation, will take a different view. Perhaps he can confirm that. Do we know what Mr Branson thinks or is he in two minds on the issue?

David Horne: I will give a bit of background for the committee. Virgin Trains East Coast is a joint venture between Virgin Group and Stagecoach Group and is 90 per cent owned by Stagecoach. The views that we are expressing are our views as a company. Both our shareholders clearly have wider interests, but in the meeting and in the submissions we have made, we have been putting forward our views and the analysis that we have undertaken as a company.

Tim Alderslade: It will come as no surprise to you to learn that Airlines UK represents both short-haul and long-haul carriers, so I will not get into a discussion around the bandings or the Virgin Group. As we have said, we want the 50 per cent reduction across both bands. I will leave it there, before I get into trouble.

Willie Coffey: As an Ayrshire MSP, I am interested in the potential beneficial effect of the policy on Prestwick airport. I was fortunate to be at a meeting in Dublin the day before the Irish Government abolished its air passenger tax, and Michael O’Leary was present at the same meeting. The following day, he announced a series of major investments in Dublin and so on and so forth. Gordon Dewar rightly said that the winning agenda for Scotland is tourism. As a west of Scotland MSP, I am interested in the potential benefits for Prestwick as a regional airport. Is there any evidence from elsewhere in Europe that regional airports in particular countries and jurisdictions get a spin-off benefit from policies such as this?

Gordon Dewar: The straightforward answer is that every airport that sees a reduction in tax has improved chances for growth—that is probably the best way in which I can put it. It probably would not help if I gave you my view on the possibility of Prestwick achieving that, but tax can be a massive drag. We are generously provided for by good airports in the central belt of Scotland and well provided for in the Highlands and Islands. There is an opportunity to harness that asset base and the enthusiasm and capability of the management teams around Scotland, if we just take the handcuffs off.

Willie Coffey: Some of the displacement that has occurred is from Prestwick to Glasgow, particularly with regard to the Dublin Ryanair flights from Prestwick. Michael O’Leary promised that if a measure on APD was introduced he could double the passenger numbers at Prestwick from 1 million to about 2.5 million. He made that clear commitment on the record. If that policy was applied to Prestwick, it would surely have a huge and beneficial impact on the Ayrshire economy.

Jonathan Hinkles: There is clear evidence in Ireland that regional airports benefited from the abolition of the equivalent of APD. The traffic levels at Dublin airport have grown by 40 per cent over the past three years, but it is clear that there are now additional links into Cork, Shannon and a wide range of points. However, at the same time, Derry airport, because it is still subject to UK air passenger duty, is losing its sole remaining air service to London, and the Government is having to step in. The model of what has happened in Ireland and the impact on the immediate periphery

would be a good benchmark for further scrutiny into the likely effects of the Scottish proposals.

Gordon Dewar: In Northern Ireland, Belfast International retained its United Airlines New York service only because APD was abolished for it. That was the difference between keeping the route and it being cancelled.

Neil Bibby: I want to go back to the issue of encouraging air travel within the UK at the expense of rail travel. I looked yesterday at the possibility of travelling in a couple of weeks' time from Edinburgh to London. I found that I could get a Ryanair flight from Edinburgh to Stansted and that, even including travelling from Edinburgh city centre to Edinburgh airport and a train journey from Stansted airport to London city centre, the cost came in at £63. On the same day, a Virgin train between Edinburgh and London would cost £115 return.

I appreciate that Virgin Trains East Coast has special offers, such as £20 returns in sales, but whenever I have looked at the options for travelling between Edinburgh or Glasgow and London, it frequently seems cheaper to get a flight than to take the train. Why is that the case? Why is rail travel between Scotland and the rest of the UK so expensive? Is that not something that needs to be looked at in general, irrespective of our position on APD? If we want to increase the number of people who travel by rail for such journeys, we must make it more affordable for people to go from Glasgow or Edinburgh to London.

12:15

David Horne: We agree that it is important that rail travel between Scotland and London is affordable, and that is what we have been seeking to achieve over the past two years, since we have been operating the east coast route. Last year, we expanded our services so that there is now a half-hourly service between Edinburgh and London—Ryanair does not run a half-hourly service to Stansted—which enables us to offer many more thousands of cheaper tickets on the route each week. We are addressing affordability, which is clearly important to our market.

We are also seeking to offer a different proposition from airlines. We are trying to take people between city centres in order to cut out the journeys to and from airports, and we are conscious of people's experience of getting through airport security these days. Our focus is on providing a high-quality, frequent service that allows people to work on board. We also provide free wi-fi and entertainment systems between Scotland and London. We are attracting people through the customer experience as well as

through price, although I agree with you that price is important.

The Convener: I do not want to get into a debate about the merits of rail and air travel or who is giving the best deals, as that is not really what the bill is about. Did you want to pursue that point, Neil?

Neil Bibby: I just wanted to explore the reasons why rail travel is currently more expensive than air travel on a lot of occasions.

The Convener: Okay. Patrick Harvie has a question on the same area, but time is marching on and I need to get the public finances issue that James Kelly wants to raise on the agenda.

Patrick Harvie: We have not touched on climate change yet, either.

The Convener: I know that climate change is still to be commented on. I assume that you will pick up on some of that now.

Patrick Harvie: I can deal with climate change now if you like, convener. First, I will follow up one issue in your written submission, Mr Horne, because I want to understand clearly the implications of what you are saying. You say that, as a business, you have no objection to increased international aviation coming to Scotland, but you are concerned about the environmental impacts of a modal shift away from rail to domestic flights. We are half on the same page, as I am concerned about the environmental impacts of both. Is your analysis of the modal shift that you are predicting predicated only on the Scottish Government reducing APD—or the equivalent tax—on domestic aviation? If the UK responded in kind, by having a similar tax cut south of the border for domestic aviation in the other direction, would that increase the modal shift that you are predicting?

David Horne: We will confirm this to you separately if I am wrong, but my understanding is that our analysis is based purely on changes that the Scottish Government would make.

Going back to an earlier point about our analysis, the reduction of 33 per cent in the southbound rail market is our assessment of the impact of the abolition of ADT on flights from Edinburgh to London, rather than a 50 per cent reduction in ADT on those flights.

We have not assumed anything about how the UK Government may respond.

Patrick Harvie: Is it reasonable to assume that, if the UK Government were to respond by implementing the same kind of cut in APD for domestic travel, that would have a similar impact on the attractiveness of rail in general for those domestic journeys and on the value of the franchise were it put out to tender again?

David Horne: It would clearly have a further impact, which would need to be assessed.

Patrick Harvie: Thank you.

Do you want me to go on to climate change, convener?

The Convener: I know that David Horne is pressed for time. Are you okay to stay, David? I think that, originally, you had to be away by midday.

David Horne: I am happy to stay.

The Convener: I was going to bring James Kelly in. Are you content that we move on to climate change, James?

James Kelly: That is fine.

The Convener: Okay. We will move on to climate change.

Patrick Harvie: As far as I can see, the most recent commitment from the aviation industry was given in 2009 and was a commitment, given in international negotiations, to halve CO₂ emissions—I assume that that means its overall climate change impact—by 2050.

Can the aviation industry representatives tell me whether that is still the commitment of the industry, and whether this approach to a new tax is compatible with Scottish aviation achieving that goal?

Tim Alderslade: Aviation is signed up to global targets of carbon-neutral growth from 2020 and a 50 per cent reduction in CO₂ emissions, based on 2005 levels, by 2050. I can give you the assurance that that is still the commitment. It is a voluntary commitment from the industry.

Patrick Harvie: Thank you, that is very clear. Can you explain how the increase in aviation levels that you are aiming to see as a result of the Scottish Government's ADT policy is compatible with halving emissions from aviation by 2050?

Tim Alderslade: The industry, working through the sustainable aviation strategy, has forecast that demand will go up by around 50 per cent by 2050. We can comply with our climate change commitments and still meet that additional increase in passenger numbers through a variety of mechanisms. The increase in Scottish flights will be relatively small compared to the increase that we will see both in the UK and globally, but, through a variety of mechanisms, we can see an increase in passenger numbers while reducing our emissions and hitting our global target.

Patrick Harvie: So there should not be any objection to locking in the requirement for ministers to achieve that impact on aviation

emissions when they set the rates and bands of this tax.

Tim Alderslade: That is not something that I have given great thought to. All that I can say is that, as a global industry, those are the commitments that we have made. We have made them now for a number of years, and we are on target to hit them. By 2050 we would like to see a reduction of 50 per cent on 2005 emission levels. As a result of the measures that we are taking, we are now starting to see emissions come down.

Gordon Dewar: Can I come back on that?

The Convener: I think that Mr Hinkles is next.

Jonathan Hinkles: The primary method through which those objectives will be achieved is the adoption within the industry of new technology, in particular improved engine technology, which will bring down fuel burn.

My other point, particularly in respect of our business within the Highlands and Islands, is that operating with a lower cost base will allow us to increase the number of passengers. That will probably initially be done by operating larger aircraft that will generate the growth in passengers but produce lower emissions per passenger carried, as a result of the economies of scale achieved by operating larger aircraft.

There is no contradiction between reducing or abolishing ADT and continuing to see reductions in emissions. Airlines operate in a hugely cut-throat industry and they will continue to adopt new technology because they have to remain competitive.

The one thing that we cannot guarantee with any certainty is the price of aviation fuel. Airlines will always make every effort to minimise their aviation fuel burn and run their businesses as efficiently as possible. That is consistent with minimising the emissions that we generate by burning that fuel.

Patrick Harvie: I do not want to get into a technical discussion about the achievability of that—it would take a very long time and we might not agree by the end of it anyway. However, you say that the confidence exists that the industry can not just increase efficiency but halve emissions, compared with the baseline. Surely we would therefore have no problem at all in placing a legal requirement on ministers to achieve that impact when they set the rates and bands of this tax.

Jonathan Hinkles: First, there is a global impact around the question.

Another question is, if the target is not achieved, what mechanism will you use to recover the ADT that has not been collected from customers over that period of time? Although I understand the

rationale behind it, I am struggling to see how what you propose could be put into practice. If, over the course of 10 or 15 years, passengers have been charged either no ADT or a reduced level of ADT and at the end of that time the industry has not met its target, how could you realistically go to each and every customer retrospectively, sending a captain's hat for a whip-round to collect the tax that was not collected? I cannot understand how that would work.

Patrick Harvie: I have not suggested retrospective taxation. I am suggesting a requirement on ministers to ensure that the rates and balance of tax that they propose are compatible with the objective that the industry seems confident that it is on track to achieve.

Tim Alderslade: The targets are global because aviation is an international industry. We cannot look at those targets in a Scotland-specific way. The Committee on Climate Change has been quite clear that action to tackle climate change needs to be taken globally or regionally. To take a purely Scottish perspective would be quite a blunt approach.

Patrick Harvie: Globally means everyone, rather than by someone else.

The Convener: Gordon Dewar is also keen to come in, Patrick.

Gordon Dewar: I observe that although this is utterly crucial for us, we should not get carried away by the impact that it will have on the global aviation industry. It is a market-share play. EasyJet and Ryanair have fleet orders and they will not order more aircraft because Scotland has reduced APD. We will take the same aircraft away from other European countries. It is a market-share play, simply by getting us down towards the levels of tax that other countries charge—which is largely nothing. In effect, there will be no net impact on emissions as a result of the change, although, of course, there will be some marginal additional travel.

One of the other benefits of direct services, which will result from this, is that they avoid the very inefficient hubbing through other airports.

Patrick Harvie: I want you to clarify that point. Are you saying that there will no net emissions impact from the Scottish Government's policy of halving and then abolishing ADT?

Gordon Dewar: I am saying that, in global terms, the impact will be extremely small. The Committee on Climate Change said that the impact of the abolition of APD would be 0.1 per cent. That is utterly manageable. The vast majority of what would happen as a result of that change is that aircraft that would have been assigned to Spain, Italy or Germany will be assigned to

Scotland. There is no net impact on what that aircraft emits.

Patrick Harvie: As we are yet to hear the environmental impact assessment from the Government it seems that everyone is unclear whether the impact is small or non-existent. Let us wait and see.

Tim Alderslade: Our members have invested in—

The Convener: I am sorry to interrupt, but Patrick Harvie was making a statement rather than asking a question. We will not get anywhere if we start making statements back and forward. Let us move on to public finances.

James Kelly: I will try to boil this down to one question. In a previous evidence session we heard about the potential impact on public finances. The objective is a 50 per cent reduction in ADT by 2021. The financial memorandum shows that the OBR forecast for the Scottish element of APD revenue—if there were no change—would be £378 million in 2020-21. A 50 per cent reduction could therefore mean a reduction in the Scottish budget of up to £200 million.

In those circumstances, the budget is about choices and priorities. Given everything else that is going on, if the budget is reducing, would it be right for a council not to be able to pay a living wage to a care worker employed in a care home, so that a couple on a joint income of £60,000 would be able to enjoy a reduction in the price of their airline tickets?

Jonathan Hinkles: The strongest answer that I can give to that is to refer to the point that I made about the economic effects in Ireland, where the change has been made and proven. Ireland is an economy with a strong tourism base, exactly the same as Scotland. There is economic evidence to draw on before taking such a decision; it will not just be a leap of faith into the deep end of the swimming pool. I would encourage benchmarking against the wider economic impact in Ireland of taking the same action that it is proposed to take in Scotland. That will take the guesswork and uncertainty out of the equation, particularly for the committee and the ministers who will ultimately take the decision.

Gordon Dewar: I echo that. As I said earlier, it would be helpful to get a baseline model from independent sources that people can trust. If you look at the whole of the UK, the evidence on economic growth is unchallengeably positive. The revenue to the state—the combination of the Scottish state and the UK—is also positive. I am not even going to step into the discussion about how you reconcile that between the Scottish and UK Governments because as a UK and Scottish resident, that is wooden dollars—although I know

that is not the reality for the way in which the Government is run in Scotland.

The proposal is one of the best investments you will ever see. It is not a tax cut or giveaway, but is a huge investment. If you listen to the tourism industry, which is entirely neutral on aviation per se, it is saying that if you want to hit the 2020 tourism target—tourism is one of the biggest economic engines for Scotland—the most important single thing that can be done is to follow through on the stated policy of halving APD.

12:30

James Kelly: Even if that means that care workers working in care homes are not able to be paid the living wage?

Gordon Dewar: I do not believe that it does mean that. We are calling for someone to look at the data and see what the implications are. Within the UK, it will undoubtedly be regenerative and I would hope that even the Scottish dimension would be very close to that. However, I am not a tax expert and I cannot do the modelling for the civil service. Even if there is a lag in the overall benefit for Scotland, the wider economic benefits of having more people in employment, better standards of living and everything else that goes with that says that cutting APD is one of the best investments that you face.

The Convener: I understand where James Kelly is coming from, but to be fair, that is a policy question for the minister to answer.

Tim Alderslade: In the interests of transparency for all of us on both sides of the argument, it would be beneficial for the Scottish Government to invest a small amount of money in an economic study.

The Convener: We have reached the end of today's evidence. I thank everyone who has come to give us evidence as part of our consideration of the Air Departure Tax (Scotland) Bill. I expect I shall be paying much more attention to the comparisons between Scotland and Chad in the future.

12:31

Meeting continued in private until 12:31.

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