



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Finance and Constitution Committee

**Wednesday 22 February 2017**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



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**FINANCE AND CONSTITUTION COMMITTEE**  
**7<sup>th</sup> 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:**

Chris Day (Transform Scotland)

Neil Ferguson (Revenue Scotland)

Elaine Lorimer (Revenue Scotland)

Mike Robinson (Stop Climate Chaos)

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

The David Livingstone Room (CR6)



# Scottish Parliament

## Finance and Constitution Committee

*Wednesday 22 February 2017*

*[The Convener opened the meeting at 10:00]*

### Air Departure Tax (Scotland) Bill: Stage 1

**The Convener (Bruce Crawford):** Good morning, colleagues, and welcome to the seventh meeting in 2017 of the Finance and Constitution Committee. We have received apologies from James Kelly.

The first item on the agenda is continuation of our stage 1 consideration of the Air Departure Tax (Scotland) Bill. We will take evidence from Revenue Scotland, from which I welcome Elaine Lorimer, the chief executive, and Neil Ferguson, the head of strategy and change. I invite Elaine to make a short statement, if she wishes to do so.

**Elaine Lorimer (Revenue Scotland):** Yes—if I may, convener. Good morning and thank you for inviting us to the meeting. Neil Ferguson, who is sitting next to me, is the programme manager for the implementation at Revenue Scotland of the air departure tax. We hope that, together, we can provide some insight into and assurance about the work that Revenue Scotland is undertaking to ensure a smooth transition to the introduction of air departure tax. As the committee is aware, our role is not policy formulation; that is for the Scottish Government. Therefore, our interest is primarily in part 4 of the bill.

Revenue Scotland has been operating since 2015 and is the tax authority in Scotland with responsibility for collection and management of the wholly devolved taxes. Air departure tax is the third tax for which we will assume responsibility—the others being land and buildings transaction tax, including the additional dwelling supplement, and the Scottish landfill tax. The approach that Revenue Scotland takes to its work is grounded in the four principles of taxation that were set out by Adam Smith: certainty, efficiency, convenience and taxes being proportionate to the ability to pay. In addition, we have taken a digital-first approach, using technology to best effect. Those principles will underpin our approach to the implementation of air departure tax.

Our electronic system for registration and making returns has proved to be secure, reliable and robust. It handles about 115,000 tax returns annually, with 99.97 per cent reliability. It has the

capacity to accommodate air departure tax; our plan is to design a new module that will be added to the existing system. When we considered the options for administering the new tax, that option represented the best value for money and was, by offering stability and security, the most sensible option from a risk perspective. It was clear, too, from our early engagement with aircraft operators, that there was strong support for an online system—particularly given that the United Kingdom system was paper based until January.

In our first two years of operation, we have established a strong reputation for working collaboratively with taxpayers, their agents and representative bodies, as well as with other key institutional bodies on the Scottish tax scene, including the Scottish Fiscal Commission and the Scottish Government. We are grateful for the continued support from, and sharing of information by, Her Majesty's Revenue and Customs and colleagues in the Scottish Government and Transport Scotland, which is helping us to prepare for air departure tax. Each of those bodies has a seat on the programme board that we have established to oversee our work.

Air departure tax opens up a new range of taxpayers to our organisation, with many tax operators being global businesses that are not domiciled in this jurisdiction. Although that may present challenges, we will be mindful of it as we develop our implementation programme, and we will build on our external engagement with taxpayers through face-to-face meetings and using digital technology to reach them as best we can; for example, our advice and review group, which involves a number of aircraft operators, will meet in London this week.

The new tax will also bring different challenges for our compliance work, especially when enforcement becomes necessary, but we have time to plan for those things. We know from our other work that engagement with taxpayers and their representatives is the key to successful development of our systems, processes and guidance. Once again, we will look to the aircraft operators to test our systems with and to assist in production of our guidance.

It is relatively early days in our programme of work to bring the new tax into effect, so we will be happy to update the committee at any point as that work progresses.

**The Convener:** The committee has heard evidence that the proposed administrative arrangements for the collection of ADT are similar to the current arrangements for collection of UK air passenger duty. What main differences would you highlight? What improvements can you make to the system through the way that you are going to go about collecting ADT?

**Elaine Lorimer:** As I see it, there are two key differences between the administrative arrangements, although Neil Ferguson will no doubt add some more.

The first is that we will be moving from requiring operators to produce a monthly tax return to requiring them to produce a quarterly tax return. On the face of it, that will be administratively more convenient for the airline operators. In the work that we have done with them so far, they have given us information that supports that.

The second key difference is that we will be moving to our online tax system for the aircraft operators to use to register with us and to submit their tax returns. HMRC has just—in January this year—introduced its digital system, which is obviously very new. If I had been sitting here in November, I would say that our move would be a fundamental change, but HMRC has moved to a digital system, so that is less new for aircraft operators.

I do not know whether Neil Ferguson wants to add anything.

**Neil Ferguson (Revenue Scotland):** There are one or two other minor things. Obviously Revenue Scotland, rather than HMRC, will collect the tax, so that is a change for aircraft operators, in terms of whom they will deal with. We will, under section 13 of the bill, be required to keep a register of “taxable persons”. We will also introduce the opportunity to pay by credit card or debit card, which is not currently available under UK APD arrangements. We have not done it before, but we think that it will be helpful—in particular, for occasional operators. Those are some other key differences.

**The Convener:** On page 3 of your submission you outline a number of processes that you handle in respect of LBTT and SLFT returns. Is an estimate available—it may be in the financial memorandum or the policy memorandum, so forgive me if I have missed it—of the number of transactions and returns that you will deal with, on top of what you already do as an organisation?

**Elaine Lorimer:** Neil Ferguson will be able to provide some detail for you. We expect, I think, to deal with 150 aircraft operators that we call legacy airlines—the main airlines. We also expect a much smaller number of occasional operators. Set against the 115,000 tax returns that we receive, which is the combined number of landfill tax and land and building transaction tax returns, it will be a much smaller amount; it will be slightly greater than the number of landfill tax returns but much smaller than the number of LBTT returns.

**The Convener:** It is helpful to get an overall perspective.

We have a range of questions on software issues—the change from paper to computers—reporting issues, timing issues and complexity. Willie Coffey will kick off.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** My interest in the software stems from a long career in software design and development. I am quite keen to understand a wee bit more about where we are in relation to specification and design of the software. I note from the financial memorandum that provision for it is about £120,000, which some members feel is a wee bit on the modest side. Where are we in development of the software? How soon do you need detail of the actual operational arrangements for the tax, so that you can build that into the software?

**Elaine Lorimer:** The starting point is to remind the committee that we have an existing system which has a lot of the fundamental elements, including the main platform for management of the tax, the means by which we expect operators to register and its being web enabled. All that functionality already sits in the system. When we implemented the additional dwelling supplement, we went through a similar process, in which we had to make amendments to our existing system. That went through very smoothly. We are, in essence, going to develop bespoke areas purely for the air departure tax. In many ways they will be not that different from what we have for the returns that we receive from landfill operators. The system is very similar.

That might explain the background. On where we are with specifying what we need, we are in the early stages. We have an established relationship with the supplier—it is our current supplier—so we do not need to go through a procurement process because there is provision within the existing contract to enable the new module to be developed. That means that we do not face timescales such as are associated with procurement.

As far as specifics are concerned, we have started our process-mapping work—we have a business analyst working with us who is working through that. We will be working with the developer over the summer with a view to having a system that we can test in late autumn. Neil Ferguson might want to add detail on that.

When it comes to how much notice of changes we need, part of the beauty of the system that we have is that it gives us quite a lot of flexibility. If bands or rates change, that will not cause us a huge amount of difficulty from a design point of view. What would create more difficulty for us—we are not anticipating this—would be alteration of the fundamental framework on which the tax is based. We are operating on the basis of assumptions about what is in the policy memorandum and what

the Government's publicly stated intentions are for the broad framework of the tax.

**Neil Ferguson:** I will say a little bit more. As Elaine Lorimer said, the business requirements are being dealt with at the moment. We are holding a workshop with the aircraft operators tomorrow to go through some of that. We will look at screenshots of how the system might look and get some user feedback on development of the system so far. Ultimately, we want to prepare the functional specification for the information technology system through the course of March and April. That would lead, in around May, to a work order request to start building the system. We want to take the collaborative approach that we have taken in the past with the previously devolved taxes; we want to involve aircraft operators, as users of the system, to do some user testing and we want their feedback on it.

The cost appears to be low because, as Elaine Lorimer said, we are not building the platform; we are, rather, adding something to an existing platform that already deals with user accounts, security measures and so on. We are not building a system from scratch or creating a completely bespoke system, which is why the cost appears to be lower than it might otherwise have been. What we are doing takes some of the risk out of the process, as well.

**Elaine Lorimer:** I am sorry—I would like to make one other point. I mentioned our experience of introducing the additional dwelling supplement. That experience means that we have a good benchmark for how much the introduction of ADT will cost. It is fair to say that we have also built a reasonable contingency into the £120,000. As things stand, we do not expect to require all that funding.

**Willie Coffey:** The convener asked about transaction numbers. I think that the number of transactions that you will be entitled to take tax from is likely to be significantly higher in ADT than it is in land and buildings transaction tax, for example. Is the number of individual tax payments likely to be much higher?

**Elaine Lorimer:** No. We expect the numbers to be much lower than is the case with LBTT, because the taxpayers will be the aircraft operators. Aircraft operators will be responsible for submitting ADT returns and will be obliged to collect the data on passenger numbers, to break the data down into the relevant bands, to apply the rates and to make the tax returns. We will get from the operators an aggregate return; we will have the powers to drill into that and to seek background data to test operators' compliance with the legislation. We are talking about a small number of returns compared with LBTT.

**Willie Coffey:** Are you confident that you will be able to implement the tax within the budget that you have highlighted?

**Elaine Lorimer:** Yes.

**Neil Ferguson:** We expect fewer than 500 returns per quarter on ADT, whereas on LBTT we get around 10,000 per month. ADT is of a different scale altogether from LBTT; in that respect, as Elaine Lorimer said, it is much more akin to the Scottish landfill tax. We are applying quite a lot of the learning from over the years with the Scottish landfill tax to how we are going to deliver ADT, because the two taxes are similar in scope and complexity.

10:15

**Ivan McKee (Glasgow Provan) (SNP):** I want to drill a bit further down into the readiness of the system, the way that you have designed it and what it can and cannot cope with. I am coming from an overview that the purpose of the policy is to stimulate economic growth. It may be that when we look at it from a policy perspective we will reach the conclusion that there may need to be more bands, or differentiation between types of passengers, times of the week or times of the year. Depending on how the policy discussion goes, many variables could allow the policy to focus on specifics to stimulate growth for specific businesses in certain areas. For example, we might distinguish between outbound and inbound tourism. If the policy goes in more complex directions, at what point will the system that you have designed start to become unfit for purpose?

**Elaine Lorimer:** The advice that I have from my team that is working on APD is not that that would not matter, but that as long as the fundamental structure of rates and bands exists, we can accommodate a number of rates on a number of bands. A more sophisticated system, such as the one that Mr McKee described, potentially places a bigger burden on the aircraft operator, because what we would receive would be the aggregate return against all the different categories. We can design a tax return that has the required fields, but the obligation would be on the aircraft operator to amend its systems and processes in order to provide us with that information.

**Ivan McKee:** Okay: it would be the aircraft operators rather than Revenue Scotland that would have the most difficulty, in that case.

**Elaine Lorimer:** I think so.

**Neil Ferguson:** I would expect that to be the case. As Elaine Lorimer said, we can design the tax return. The key thing is that at the moment the tax is per passenger, on the basis of tax bands. We did the same with the first two devolved taxes.

Our system has to be flexible enough to accommodate changes of rates and bands, and the addition and removal of bands. We can handle all that, but it would be difficult if the entire structure of the tax were changed and if we did not have a per passenger tax on the basis of tax bands, as is set out in the policy memorandum. Our current assumption is that that is the way in which the tax will be structured and framed.

**Ivan McKee:** Could there be something that relates to the type of passenger, for example?

**Neil Ferguson:** Yes. It depends on the variables; we can build in variables but, as Elaine Lorimer said, the more variables you add to the mix, the more complicated it will become for the airlines. It might be that the airlines would need more time to deal with that complexity. Ultimately, the airlines will be filling in a tax return that is an online form.

**Ivan McKee:** That is clear. Earlier, you made a hint about auditability. At the end of the day you get something from the airline that says, “We owe you £1 million”, but what is the process for you to drill into an airline’s passenger numbers and records and so on, and how often do you expect to do that to ensure that you are getting the correct information in returns?

**Elaine Lorimer:** Part of role of the Revenue Scotland team that will be responsible for management of the tax will be to carry out what we call compliance work. We will, over the next year, design our strategy for compliance with the tax. As with the other taxes, we will have power under the legislation to open inquiries, to require the taxpayer to provide us with information and to drill into that information—for example, by visiting the taxpayer at their premises. We will have powers to get to the information that we need.

We will also be able to access other information that is not held by the taxpayer, to check against. We can work with the Civil Aviation Authority, for example, to examine passenger numbers and flows, and match that information with the data that come from aircraft operators. We will also have information-sharing agreements and memorandums of understanding with HMRC, as we do for the other taxes, which will enable us to access data that HMRC has so that as part of our compliance work we can check it against what the aircraft operators submit in their returns.

In a sense, the approach that we will take for the air departure tax will be pretty similar to the approach that we take for other taxes.

**Ivan McKee:** That is great. Thank you.

**The Convener:** Mr Kerr, are there areas that you want to cover?

**Liam Kerr (North East Scotland) (Con):** No, it is fine—they have been covered.

**The Convener:** Maree Todd has questions about timing.

**Maree Todd (Highlands and Islands) (SNP):** I have a slight concern about timetabling, although it might just be me who is unable to understand it. The airlines tell us that the tax bands and rates need to be published or made public about a year and a half before the tax is introduced so that they can charge it. Will that be an issue? Will it add complexity to the system if that information is not made public until a short time before the changes are introduced?

**Elaine Lorimer:** I suspect that the airlines and aircraft operators have made that point to the committee because they are thinking about it from the perspective of planning their business and what they will charge passengers. However, the situation does not really impact on us, because we will require the operators to provide us with tax returns for the first quarter of business starting from 1 April next year through to July. The first tax return that they will have to send to us will be in summer next year, and it will only cover flights that they have operated and have departed from Scotland since 1 April.

As I understand it, HMRC has in the past made changes to the existing UK tax by, for example, introducing exemptions after airline operators had already charged the tax because they had taken prior bookings. We understand from HMRC that the airlines have all been very co-operative in working with the bookings that they had already taken and reimbursing. Also, not all the airlines pass on the tax directly to the passenger. The airlines’ issue with timing is to do with their ability to plan their business.

**Maree Todd:** To pass the tax on.

**Elaine Lorimer:** Well, to plan their business.

**Patrick Harvie (Glasgow) (Green):** I want to follow up on the questions about implementation. I am still a wee bit unclear about how much flexibility Revenue Scotland would be able to cope with without there being an impact on the implementation of the tax if, for example, Parliament chose to take the bill in a different direction, or it chose a different structure for the tax, or it chose to change the requirements in relation to fiscal representatives or disagreed with the Government on the question of monthly versus quarterly returns. How much change is tolerable without there being an impact on implementation? Are there particular changes that Parliament might consider that you think would be problematic?

**Elaine Lorimer:** There is a lot in that question.

**Patrick Harvie:** Sorry.



**Elaine Lorimer:** It depends on what the changes are. To take your example of Parliament deciding to move from quarterly to monthly returns, we would be able to accommodate that. It would depend on what the changes would be around fiscal representatives, but I cannot think off the top of my head of changes that would affect our ability to implement for 1 April.

The fundamental issue that might cause an issue for us is if the underlying structure of the tax changed and it moved away from being based on passenger numbers with rates and bands. Again, we would need to look at the detail of what Parliament wanted to change and we would be able to provide advice to the Scottish Government and Parliament about the impact on Revenue Scotland.

Ultimately, we need the ability to get a tax return in with the data that enables us to check that the right amount of tax has been paid. As we have said, if there are fundamental changes to the tax structure, that might give us IT issues—it would depend on the changes—but the greater impact would be on the aircraft operators and airlines, because they are obliged to hold and to provide the data in such way that allows us to check whether it is correct.

**Patrick Harvie:** I also want to ask about the European Economic Area. I think that there are three references to the EEA in your written submission, which are mostly about the appointment of fiscal representatives. I was unclear whether the implication was that, if we find ourselves outside the European Economic Area, there would be problematic consequences.

**Elaine Lorimer:** We wanted to bring to the committee's attention that having fiscal representatives in the European Economic Area would be a change from the current UK system. The Parliament is obliged to respect European law in legislation that it passes. HMRC obliges aircraft operators to have a fiscal representative in the UK. Under the bill, we will have to be ready to deal with fiscal representatives who are located anywhere in the European Economic Area. You could imagine that, from a compliance or a debt recovery perspective, that could give us more complexities than if we dealt with fiscal representatives based in the United Kingdom.

**Patrick Harvie:** The potential problems that you flagged up in your submission are to do with language, communication and what have you.

**Elaine Lorimer:** Or enforcement.

**Patrick Harvie:** Yes. Would our position outside the European Economic Area—if that comes about—exacerbate the potential problems of enforcement, collection or any other aspect of how the system is supposed to work?

**Elaine Lorimer:** I would need to take legal advice on what the impact would be. It depends on what happens with Brexit, but, in the event that we are outside the European Union, it may well be that changes could be made to the legislation to give us the opportunity to insist on aircraft operators having a fiscal representative based in the UK or Scotland, rather than anywhere in the European Economic Area. That is both a legal and a policy question.

**Patrick Harvie:** Do you happen to know what the relevant situation is in other countries in Europe in the broadest sense—that is, those outside the European Union? Do they require domestic representatives for such arrangements or are they able to operate for this purpose in the EEA as a larger area?

**Elaine Lorimer:** I do not know the answer to that.

**Neil Ferguson:** I am not sure about that, either.

**Elaine Lorimer:** We can find out.

**The Convener:** It might be useful if you could follow up on that and let us have a note, because we have the minister coming next week and we can ask him similar questions.

I think that Liam Kerr has a question in this area, too.

**Liam Kerr:** Yes—thank you, convener. It is on a matter that Ms Lorimer mentioned. I appreciate that this is not entirely your area, but you said that not all the airlines pass on the tax to their passengers. Will you elaborate on that? A number of previous witnesses have said that, if the tax is cut, that cuts the cost to the consumer, so there will be a modal shift. However, that might not happen if the airlines do not pass on the tax through the fares that they charge.

**Elaine Lorimer:** My understanding is that aircraft operators are not under any obligation to pass on the tax. It would be a business decision to pass on the tax, if that is what they choose to do. That is as much—

**Liam Kerr:** Do you have any oversight on what proportion of airlines currently pass on the tax?

**Elaine Lorimer:** I am sorry, but I have no information on that.

**The Convener:** I have had a thought about Patrick Harvie's question on fiscal representatives. The bill states that the representatives must be based in the EEA but, in your response, will you consider whether it needs to be a bit more flexible to take account of our being outside the European Union and the EEA, should that happen in the longer term? A reflection on that would be helpful.

10:30

**Patrick Harvie:** Or if we are still in it and our nearest neighbour is still outside it.

**The Convener:** Indeed. There are lots of potentials. All that I am looking for is general flexibility in the legislation.

**Elaine Lorimer:** We will see what we can do on that. It is obviously a legal point. It is also perhaps a policy point, so the Scottish Government would need to have a view, but we will see what we can do. The way that the bill is currently drafted is because of the way that the law currently stands.

**The Convener:** I understand that.

**Neil Ferguson:** I will add one minor point. At the moment, the fiscal representatives for UK APD have to be based in the UK. There is no obligation, but any aircraft operator outside the European economic area that has no presence in the UK might choose to use, for the purposes of air departure tax, the fiscal representative in the UK that it uses for UK APD. In that case, we would still be dealing with someone who is based in the UK. There is no obligation on operators to do so, but there is the possibility that they might. That would make things a bit easier.

**The Convener:** I do not want to take this too far, but we could have a situation where the legislation here requires representatives to be based in Scotland, which would deal with everything and give us maximum flexibility. I will leave you guys to come back and tell me that, if you want to.

**Ash Denham (Edinburgh Eastern) (SNP):** As Ms Lorimer mentioned in response to an earlier question, UK APD works on monthly returns, but Revenue Scotland wants to move to ADT being based on monthly data with quarterly returns. I do not know whether you have seen the comments of the Chartered Institute of Taxation, but it said that Revenue Scotland's arguments on that issue

"did not appear ... to be entirely valid."

It also had concerns that, because landfill tax is based on a quarterly return cycle, having the same cycle for ADT could create a workload pinchpoint, if all the returns come in at once. Will you comment on that?

**Elaine Lorimer:** I will answer the second bit of your question first. We will staff the organisation so that the management and administration of the air departure tax returns, when they come in, will be dealt with by a separate team from the landfill tax team. As we have been developing as an organisation, we recognise that we absolutely have to be expert in the individual taxes, and therefore we have different teams specialising in the different taxes. From that very basic

perspective, there should not be a problem at all with workflow management. We have already talked about the system's capacity—there should not be a pinchpoint in that, and there should not be a pinchpoint in our staffing.

We think that the move from monthly to quarterly returns will actually benefit the airlines because, although they will still have to keep the data, they will have to go through the process of compiling a tax return only quarterly, which means fewer occasions in the year. We shared our thinking on that with the airlines early on in our engagement with them, and they are supportive of it as a concept, because it is less administrative hassle for them.

I hope that that answers your questions. From our perspective, that is the model that we have for landfill tax and it works. So far, the airlines have told us that it is a good and positive move for them as well. They will still have to keep the monthly data, but they will not have to go through the administrative process of collating all the data and submitting it in a monthly tax return.

**Ash Denham:** My second question is about the register. Is there any conflict between Revenue Scotland's duties on taxpayer confidentiality and the register? Will it be a list of operators or of passengers?

**Elaine Lorimer:** As you know, we have an obligation to have a register. For landfill tax, we have a register of landfill operators. We are mindful of our obligations under the Revenue Scotland and Tax Powers Act 2014 to protect taxpayer information. Therefore, we would absolutely not wish to be put in a situation, or indeed to put any aircraft operator in a situation, where we were breaching those obligations.

Our current thinking—we have not finalised it yet—is that we will move to a similar model to what we have for landfill tax, so the name of the aircraft operator will be on the register. It most certainly will not be the individual passengers. It is the aircraft operator who is the taxpayer, and it is the aircraft operator that we are interested in.

**Ash Denham:** Thanks.

**The Convener:** Neil Bibby has some questions in this area as well.

**Neil Bibby (West Scotland) (Lab):** I understand what you are saying about it being less hassle for the airlines to do quarterly instead of monthly returns, but is there not an argument that it is better for the public purse to have regular monthly, as opposed to quarterly, income?

**Elaine Lorimer:** That is a question for the Scottish Government.

**Neil Bibby:** Fair enough.

**Elaine Lorimer:** It is the Scottish Government's bill, so obviously it will have thought through what is in it.

**Neil Bibby:** Okay—I will ask the Government that question.

**Adam Tomkins (Glasgow) (Con):** I have a couple of quick questions about staffing, estate and operating costs. What is the current staff of Revenue Scotland?

**Elaine Lorimer:** We have around 55 staff at the moment, and that will go up to about 60.

**Adam Tomkins:** Are you going up to 60 only because of the devolution of APD?

**Elaine Lorimer:** Yes. You will see in the financial memorandum that we have sought to cover additional staff costs to enable us first to do the work on building up a programme this year so that we can introduce the tax. Then there will be on-going costs in relation to putting together a small team of professionals to manage the tax for us.

**Adam Tomkins:** Do you need estate provision to house the additional staff?

**Elaine Lorimer:** No. Actually, just last weekend, we moved to a different layout within our existing footprint in Victoria Quay, which means that we can operate much more flexibly in the office. We have sufficient space in the office to accommodate new staff.

**Adam Tomkins:** How much do you think the annual operational costs of Revenue Scotland will go up by?

**Elaine Lorimer:** It is in the order of £500,000 a year—

**Adam Tomkins:** Is that additional?

**Elaine Lorimer:** Yes—that is additional, going forward.

**Adam Tomkins:** Thank you.

**The Convener:** I thank the witnesses for coming and for their evidence. It was a helpful session that has told us that you are as well prepared as you can be in the circumstances of dealing with new taxation.

I suspend the meeting to change over witnesses.

10:37

*Meeting suspended.*

10:41

*On resuming—*

**The Convener:** We will continue our consideration of the Air Departure Tax (Scotland) Bill at stage 1. We are joined by Mike Robinson, a board member of Stop Climate Chaos, and Chris Day, a policy adviser for Transform Scotland. I warmly welcome you to the evidence session, and I thank Transform Scotland for providing us with some evidence beforehand. Maree Todd has the first question for you.

**Maree Todd:** As I am sure that you are aware, I represent the Highlands and Islands, so I want to focus initially on the lifeline nature of flights from the Highlands and Islands. A number of people have made representations that we should not only maintain the tax reduction for flights out of the Highlands and Islands but consider abolishing the tax for flights into the Highlands and Islands. What are your thoughts on that?

**Chris Day (Transform Scotland):** Our view, as you will see from our evidence, is that there is a case for treating the islands, in particular, differently because of the argument that there is no alternative for some types of journeys to and from the islands. I am not quite sure what the distinction is between travelling in and out, in the sense that people are charged APD or ADT on one leg of the journey, but a consistent theme throughout our evidence is that where there is clearly no alternative, there is a case for a different regime.

I do not want to get into an argument about the definition of “lifeline”, because one person’s luxury is another person’s lifeline, so it is quite a difficult issue. The Scottish Government would have to be careful to ensure that if traffic is generated on air services to and from the Highlands and Islands, ferry services are not undermined, for reasons that I suspect are fairly obvious. I will go into them if you wish, but I probably do not need to say more than that.

10:45

**Mike Robinson (Stop Climate Chaos):** I do not think that anyone is questioning the position with regard to lifeline services, other than in relation to the issue of connecting flights—it is not just about coming back to the main cities in Scotland; you can fly all the way to New York without paying APD if you book the ticket in the right place, which does not make sense to anybody. We have no issue with lifeline services per se, but the position around connectivity seems a little wrong.

**Maree Todd:** Chris Day referred in particular to island services. Do you have a different view with regard to those mainland airports that might be—

**Chris Day:** The question concerns connectivity. It depends how far into the Highlands you are going.

**Maree Todd:** I am thinking about, for example, Wick airport, where the alternative to flying is an eight-hour overland trip to Edinburgh.

**Chris Day:** I suppose that our argument would be that we would like the Scottish Government to invest in the railway network to reduce journey times between Wick and the central belt.

From our point of view, the issue is not a major one, but that is simply because the scale of travel that is involved is not major. Our prime concern involves the larger flows between the main airports and Inverness and Aberdeen airports, rather than the routes that are typically catered for by small aircraft, many of which, in any case, are exempt under the current proposals because they are under a certain weight.

**Maree Todd:** You note that the overall number of flights from the Highlands and Islands is not high. Others who have given evidence previously have said that the number of flights from Scotland does not make a particularly large contribution to the number of flights that are made in the world. They have said that issue of increased flights to and from Scotland should be viewed in that worldwide context, because the flights are not extra flights; they are simply flights that are going to Scotland rather than to some international destination. Do you have a response to that?

**Chris Day:** To put it politely, I would say that that seems as if Scotland would be asking to be exempted from its obligations to the wider world. Sometimes, people make the argument that Scotland should not bother with action on climate change, given the scale of carbon emissions from China or the United States. This is perhaps Mike Robinson's area of expertise, but it seems to me that the nature of the climate change emergency is such that that is not really a moral or sustainable argument. We are a well-developed and relatively wealthy country. It is not acceptable to say to other countries that, because they are a bigger problem than we are, we are going to make only a small contribution. We are actually in a position in which we have a much greater opportunity to make a difference than other countries in the world, in terms of leading on climate change, simply because of the relative wealth that we have compared to other countries—I was going to say the Maldives, but that is not a good example, and I sure that you will be able to think of better ones.

**Mike Robinson:** I tend to concur with that. I think that the argument that Maree Todd put forward is spurious, for a number of reasons. Further, it is not helpful in the context of Scotland, because we have a set of targets and ambitions

around climate change, and we should not exempt one industry from the responsibility to deliver them. That is a fundamental point. The rest of society is aiming for an 80 per cent reduction in carbon emissions by 2050, but this one industry is doubling its carbon impact at the moment and is expected to do so again by that date. It has to play a role. Why is it being treated differently from every other industry? Apart from anything else, that seems to be anti-competitive.

Your question about flights into, as opposed to out of, the Highlands and Islands is interesting. It is perhaps not necessarily a purely environmental one, but there seems to be some disagreement about the entire purpose of the reduction in APD.

I have sat on the Scottish Government air passenger duty stakeholder forum since its inception. The policy of reducing APD began as a way of increasing business connectivity—that was very much its primary purpose. If it is an economic stimulus, that is, arguably, a slightly different thing, because more people in this country fly abroad than fly here. We should recognise that incentivising people to come here might help our economy and that incentivising people to fly out helps another economy. Maybe we need to think about that. That is just as true for the Highlands and Islands as it is for Scotland as a whole.

We have to be a little bit careful. We are trying to deliver against Scottish commitments on the climate, and we should not see reducing APD as a separate issue.

**Maree Todd:** My final point has been put very loudly and clearly by the many people whom we have seen. The United Kingdom is an island nation on the western periphery of Europe, and the Highlands and Islands, which I represent, is very dependent on tourism. We need people to come here. Scotland is ranked about 140 out of 141 in respect of holiday costs for the world, and the particular tax that we are discussing is the second highest in the world. People who give evidence to us do not say that we can afford to do more, but that we should level the playing field so that we compete evenly rather than gain a competitive advantage. What is your response to that?

**Mike Robinson:** I have several views, one of which is that it is debatable how long any competitive advantage that we might gain would last. I am interested to know how we will ensure that airlines hold to any commitments that they might make for any real length of time. We are trying to get that benefit, but will they just up sticks and move on as soon as the advantage diminishes? We need to bear in mind that there are issues to do with the longevity of the measure.

**Chris Day:** It is useful to bear in mind the costs of APD and ADT to the inbound traveller. The typical figure is £13, which is not an awful lot in the context of a holiday for four. The argument might well be that, if the intention is to give a £180 million break that is designed to bring down costs, it might as well be given directly to the tourism industry to reduce its costs on site rather than doing things indirectly by giving a third party a reduction in costs. I suspect that in people's travel decisions in the next year we will see that any change that results from a change in air departure tax will be swamped by changes that result from the decline in the value of the pound. That is critical in people's decisions about where they go on holiday.

**Mike Robinson:** Even the Civil Aviation Authority has reported that a huge number of factors affect the cost of a holiday. There are far more factors than just the cost of the flight. Most of our tourists do not come by plane, of course; most come by land. Therefore, what has been proposed does not cater to most of our tourists anyway. APD is a fairly minimal part of the overall cost of flying. Even the CAA has said that the cost of fuel and many other factors, including security and the state of the economy, have a far greater impact than tweaking APD.

**The Convener:** I want to follow through on that. If we follow the logic that the impact of the change in the value of the pound will be so significant—I am not saying that it will not be—you are really saying that, in that circumstance, what the level of taxation is does not really matter.

**Chris Day:** To take a logical alternative, if a tax of £1,000 were imposed, that might well matter, but the level of the tax now is insignificant in the context of the other costs of a holiday. That is borne out by all the evidence that is included in the reports that have been produced for the Scottish Government in relation to Edinburgh airport, for example. I believe that, certainly for the business sector—I am trying to avoid using transport jargon, but the report talks about “elasticity” and I can never remember whether demand is elastic or inelastic—the cost of the tax is a fairly small part of the decision whether to travel. That is buried in the Edinburgh airport report and in Transport Scotland's “Estimate of the Impact on Emissions of a Reduction in APD in Scotland”, which is cited in footnote 3 of the Transform Scotland submission.

**Liam Kerr:** Mr Day, when you talked about ferry services, you seemed to imply that, if we drove traffic to air services from ferry services, that would obviously be a bad thing. Forgive me, but I do not know why that is obvious. Would you mind elaborating?

**Chris Day:** Ultimately, it would undermine the viability of the ferry services, which may incur further cost to the Scottish Government. I am a central belt resident whose knowledge of the Highlands and Islands is limited, but I assume that it is important for the Highlands and Islands that ferry services continue to be available at a level that meets the area's needs. If the ferries are not carrying passengers because everybody is travelling by air, the question is eventually going to arise.

**Liam Kerr:** I find that quite interesting. I understand that you are both here with an environmental hat on and that you are concerned about the environment. I would have thought that you would have approached the issue by considering which is the least environmentally damaging mode of transport.

**Chris Day:** Yes.

**Liam Kerr:** Have you done any analysis from that perspective in considering whether you would prefer to drive a modal shift from ferries to air travel?

**Chris Day:** Generally speaking, sea travel produces fewer emissions and consumes less energy per passenger kilometre than air travel does.

**Liam Kerr:** Do you have any modelling that says that? I live up in the north-east of Scotland, and if I want to go up to the northern isles I might choose to drive to Thurso to get the ferry from there. Therefore, there would be a huge extra environmental burden—if I can put it that way—if I made that choice over air travel.

**Mike Robinson:** There are a lot of statistics on this out there. I do not have any to hand, but there are lots of statistics on passenger kilometre consumption of carbon and they vary enormously because there are so many factors involved. It depends on how many people are in the car, what the capacity of the aeroplane is, how many passengers there are and other such issues. Therefore, it is difficult to get into absolute detail. I am sure that you could come up with an example that would make ferry travel look worse than air travel. However, that does not change the fundamental principle that, as a general rule, flying is more expensive, in per passenger kilometre terms, than any other form of transport.

One issue that has come up in the forum is that of short-haul flights being worse than long-haul flights because take-off accounts for much more of the energy consumption. Per passenger kilometre, a short-haul flight is the worst option of all. Having said that, the Climate Change (Scotland) Act 2009 recognises that aviation has a much higher impact because of where the emissions take place, and the act contains a multiplier—albeit that it is

currently set at 1, which is somewhat farcical. There is a recognition that aviation involves an added factor beyond its fuel consumption.

11:00

**Chris Day:** If you have to drive to a ferry terminal, you might well also have to drive to an airport.

**Liam Kerr:** Yes, I would accept that. However, I do not want to develop that argument, because, if I may say so, that analysis is quite facile.

My next question is for Mr Day, simply because I have his submission in front of me. With regard to taking it at face value that people are choosing rail over air because they have a difficulty with the £7 APD charge, what modelling has been done to show that removing or reducing APD will be so detrimental to cross-border rail travel?

**Chris Day:** I am aware of evidence that you have received from Virgin Trains, which indicates a very significant impact on its London to Edinburgh figures. Of course, we are not just talking about Virgin Trains; I think that a total of four different operators provide Anglo-Scottish services, although two of those franchises are operated by one company.

Other than that, I would not quote any specific modelling. You can look at general trends that show that where a low-cost air operation has come into effect it has had an impact on equivalent rail journeys—and vice versa.

**Mike Robinson:** I believe that there is a study that shows that when APD was introduced there was a 3 per cent uplift in train usage in those areas where that alternative existed. I do not think that there is any evidence, or that any modelling has been done, of the impact of what would happen the other way round, but it is clear that the rail companies are concerned and very obviously view such a move as anti-competitive.

**Liam Kerr:** I just think that we need that level of detail and that someone needs to be doing that exercise. For example, I understand that Virgin CrossCountry is about to cut a number of services from Aberdeen to Penzance because people are simply not making that choice. That has nothing to do with air passenger duty or ADT and everything to do with the mode by which they want to make the journey. It seems to me that someone needs to provide that data if we are to make a decision.

**Mike Robinson:** I totally agree. Throughout this entire process, there has been a lack of supportive data in a number of areas, and we would very strongly ask for baselining to be carried out right now on a whole number of factors. There has been talk of this 50 per cent cut being followed by another 50 per cent cut if economic circumstances

allow, but I do not think that talk is enough; the cut should happen only if all sorts of evidence is gathered on all sorts of factors to prove that the measure has actually had the impact that it set out to have. I am not convinced by the policy's economic or environmental case, and there is a clear need for better baseline information if any decision is to be made.

**Liam Kerr:** Yes.

I move on to my final question. I have to apologise to Mr Day again; it is just that I have his submission before me, and it interests me. I am going to take a very north-east view about something that you alluded to earlier. Your submission says:

“A further tax reduction for aviation would encourage passengers to travel by plane”,

which

“would undermine the ... case for High Speed 2”

coming up

“to Scotland”.

Effectively, you are asking the people in the north-east, who, realistically speaking, have no other means of getting to the south-east if, for business reasons, they have to get there very quickly—

**Patrick Harvie:** I have seen trains in the north-east—I am sure that I have.

**The Convener:** Patrick, let us not have these comments. You will get your chance in a minute.

**Liam Kerr:** Why should people in the north-east effectively subsidise a fast rail link to England from the central belt and still be expected to pay ADT for journeys that they pretty much have to take by air?

**Chris Day:** My understanding of the Scottish Government's intentions in respect of HS2 is that it will seek to negotiate an arrangement with the Government at Westminster to protect slots at airports in the south-east. The regional transport partnerships in the north-east have said that they are quite content with the concept of Anglo-Scottish services on HS2 as a general benefit to Scotland, but—to pick up on the point that you make—the quid pro quo is that the Government must ensure that slots are maintained at airports in the south-east for journeys from Aberdeen and Inverness in particular.

**Patrick Harvie:** I assure Mr Kerr that he would need to be rolling coal for the road element of his journey to be more damaging than the air element.

I want to move on to how the bill fits into the wider policy context. Even the critics of the bill and the Government's policy are not arguing against mixed modal provision to the islands—I do not think that anyone is proposing to argue that. Do

you think that the Scottish Government has a policy on aviation emission levels, how much they should be allowed to grow by or how much they should be limited by? I cannot find one anywhere. Are you aware of a policy statement on that?

**Mike Robinson:** I have never seen anything like that.

I respond to part of the earlier question, too, by saying that the tax was not set out to be an environmental tax. It was introduced because organisations such as the International Monetary Fund and the World Bank said that the industry was undertaxed. However, you would like to think that it has ended up with the potential to be an environmental tax, because it might have inhibited the growth of the demand for aviation. In fact, aviation has not been diminished but is at record levels, as you will have been told by Glasgow and Edinburgh airports in particular, so the tax as it is currently set out is not inhibiting demand.

**Patrick Harvie:** Yes, the airports certainly say that they are having a whale of a time and are growing massively. The one thing that the Government's climate action plan says about aviation is that

"We might expect to see a 15 per cent improvement in the efficiency of new aircraft by 2035".

Even if we assume that the entire aircraft fleet is made up of super-efficient new aircraft, which is an ambitious assumption, would it be fair to say that if, between now and 2035, we return to the level of growth in aviation that we have seen over recent decades, we will still be more than doubling the emissions from aviation?

**Mike Robinson:** The forecast that I have seen from the Civil Aviation Authority suggests that it would double again—we have already doubled emissions since 1990 and it would be doubled again by 2050. Yes, the demand is clearly expected to grow substantially.

**Patrick Harvie:** In your experience on the group that was working with the Scottish Government on the policy, was anyone seriously questioning the idea that halving APD or the equivalent tax would lead to the level of emission increase that the Scottish Government has predicted?

**Mike Robinson:** The forum is primarily made up of airlines and travel bodies, so clearly there is an interest in seeing a cut take place. As you might expect, your point has not been a specific topic in the forum. However, there is no question about the impact of aviation on climate emissions. The Tyndall centre for climate change research reported that aviation will account for the entire emissions budget of the UK by 2050 if we allow it to continue to grow at the current rate. It is clearly

not sustainable and I do not think that anyone is questioning that.

**Patrick Harvie:** Given that those issues are not acknowledged either in the Scottish Government's climate change action plan that was published in January or in the specific transport sector paper that accompanied it, which has one mention of the word "plane" and no analysis of the environmental impact of aviation, what changes to the bill are you looking for that would require the Scottish Government to consider them properly in the setting of rates and bands? The policy seems to have been decided before the strategic environmental assessment, which is the opposite of what the law is supposed to require.

**Mike Robinson:** Not surprisingly, we support the devolution of the measure, but we do not want to see a cut in APD. We think that APD should be held at its current level. There is some debate about the different types of taxes that could be introduced and there has certainly been debate in the forum about having frequent flyer taxes and other such measures. However, those are incredibly complex, difficult to administer and very expensive to enforce so the fact that you pay every time you fly is about as equitable as it gets.

Fundamentally, we do not view what is proposed as being environmentally equitable, because one industry is not being asked to do what every other industry is being asked to do. That is probably true economically and in tax terms, too. The fact that the multiplier is set at 1 in the 2009 act gives a fairly good indication of how we are treating aviation in comparison with every other industry.

**Patrick Harvie:** I am trying to get at specific changes that could make the bill better. Parliament must pass this bill or another bill, because there is no provision for the collection of APD once it is devolved. There must be some legislation on the matter. What can we do with the bill that would lock in requirements on the Government to report on the level of emissions that it thinks it necessary to achieve or to make an undertaking on the additional measures that the rest of the economy would have to take to pull the extra weight that aviation is refusing to pull?

**Mike Robinson:** For me, the only easy answer is that the bill should be more evidence based. As I have already said, the bill needs to have a much sounder evidence base as regards its economic and, in particular, its environmental impacts. That should form the basis for any decision making; for me, it should be a trigger for a decision being allowed or not allowed.

**Patrick Harvie:** Do you have anything to add, Mr Day?

**Chris Day:** As it stands, the bill seems to be a piece of enabling legislation. What is important is the nature of the tax and the bands that are applied to it. In our submission, we make the point that it is not quite clear how those will be subject to parliamentary scrutiny, which seems a bit odd.

**Patrick Harvie:** Thank you.

**The Convener:** For the sake of absolute clarity, do you support the bill's general principles, which provide the legal basis for collection of the tax?

**Chris Day:** We are entirely content with the devolution of APD to Scotland.

**The Convener:** The question that I asked was whether you support the general principles of the bill.

**Chris Day:** Yes.

**The Convener:** Mr Robinson, can you give us an answer on that, too?

**Mike Robinson:** My position is the same.

**The Convener:** I just wanted to get that on the record, so that we know where we are on the bill itself.

**Murdo Fraser (Mid Scotland and Fife) (Con):** Good morning. We understand from what you have said so far that you are not keen on any cut in air passenger duty, because of your concerns about emissions from aviation.

Mr Day, your submission contains a lot about the impacts on surface travel and your concern about modal shift away from rail, which reflects the evidence that we took a few weeks ago from Virgin Trains. Given that you do not favour any cut in APD, if there were to be a cut, would you prefer it to be targeted at domestic and short-haul flights or at long-haul flights? Do you have any view on where that balance should be struck?

**Chris Day:** At this stage, we have been highlighting problems with the proposals that have been set out by the Government so far. The Government's objective appears to be to reduce the tax burden by 50 per cent. I understand that that has generally been interpreted as meaning that there will be a 50 per cent cut in the rate of APD across the board. There might be a number of different tunes that could be played on that.

As I said in an earlier answer about the islands, we are particularly concerned about the cutting of APD on routes on which there is an alternative means of transport that is sustainable. It seems bizarre to provide a tax break to a less sustainable form of transport.

**Murdo Fraser:** Therefore, if the Government was determined to press ahead with cutting air passenger duty by 50 per cent in the generality,

would you view it as being better for the environment for that cut not to apply to domestic and short-haul flights and, therefore, to be weighted towards long-haul flights?

**Chris Day:** As Mike Robinson will undoubtedly say, long-haul flights are particularly emissions heavy. In the first stage, we would focus on ensuring that there are alternatives, but—

**Murdo Fraser:** That is a qualified yes to my question.

**Chris Day:** As your preface also said, we do not want to see a cut at all.

**Murdo Fraser:** I understand that. Mr Robinson, do you have anything that you want to add?

11:15

**Mike Robinson:** Short haul is worse per passenger kilometre than long haul, but long haul accounts for the bulk of the emissions because of the distances travelled. Ultimately, to go back to the purpose of the bill, if it is about business connectivity, it is a very clumsy tool for bringing that about.

**Murdo Fraser:** Thank you.

**Willie Coffey:** At our previous meeting, we heard evidence that the economic spin-off for regional airports was significant in Ireland, where the tax was abolished some years ago. As a member of the Scottish Parliament for Ayrshire, I am interested in doing what I can to support and promote Prestwick airport to encourage tourists to come to Scotland. Is it your view that it will have no noticeable impact on the economy of Ayrshire if we reduce the tax by 50 per cent? Do you expect that we will see the number of passengers coming into that airport rising significantly?

**Chris Day:** I am not sure that we could assume that any benefit would accrue to Prestwick airport as opposed to Glasgow. It is difficult to identify impacts on specific airports—particularly where there are a number of airports in close proximity, such as Prestwick and Glasgow.

Our fundamental view is that the economic growth of Scotland—or anywhere else—is led primarily by factors other than connectivity. What tends to happen with the growth, or otherwise, of air travel is that it follows economic growth; it does not lead it. In fact, since we submitted our evidence, I have produced a graph, which I will be happy to circulate to the committee later, that indicates that, when APD was introduced and doubled, there was practically no change to the trends in air travel at Heathrow and Edinburgh. The point is that it is not significant.

To pick up the Irish example—and I am aware that other evidence about that has been given to



you at various times—it is quoted that the APD rate at Belfast international was reduced to 0 per cent in 2011 because Continental Airlines, as it then was, threatened to withdraw its Newark to Belfast service, which was regarded as being particularly important. That service no longer operates. Continental was taken over by United Airlines, which withdrew the route because, even with the 0 per cent APD rate, passenger numbers had gone down the tubes.

I have looked at figures for the three major airports in Ireland, which are Cork, Shannon and Dublin. As members will recall, the economy of Ireland was particularly badly affected during the latter part of the last decade. What we saw clearly was passenger numbers dropping throughout that period, then beginning to level off and then returning to a form of stability. They had been on a slight upward trend before Ireland abolished APD. Evidently, Cork and Shannon are still struggling along, but Dublin seems to follow quite a different trend—in fact, it is different from most of the European airports as well, where we tended to see a rise up until about 2009 or 2010, then a big drop and then a gradual rise. That applied across Europe. I do not know whether it has some kind of interaction with Cork and Shannon, but Dublin seems to follow a different trajectory. It is noticeable that the upturn in flights at Dublin was in hand before Ireland abolished APD. That might not answer Mr Coffey's question.

**Mike Robinson:** Mr Coffey's question is hard to answer. For his sake, I hope that Prestwick maybe gets a bit more business, but the question that he should be asking is to the airlines, to find out what commitment they have to support Prestwick in light of an APD cut. To be honest, we are talking about a marginal reduction in the price of tickets across the whole of Scotland, so it is very difficult to isolate a particular airport and say that it will help it as opposed to another.

**Willie Coffey:** I remember the chief executive of Ryanair, Michael O'Leary, saying clearly that, if APD went altogether, he could double the number of passengers coming through Prestwick. That would be double the number of people who needed to eat, sleep in hotels and hire cars, which would surely have a positive impact on the Ayrshire economy.

**Mike Robinson:** I would like to think that it would, but I would again say that, according to the CAA and the Office for National Statistics, the evidence is that far more people fly out rather than in. Therefore the measure might well bring tourists to the area but, equally, it might take twice as many locals away.

**Chris Day:** A lot of the airlines are very mobile, and they will introduce flights for one season and then drop them. Therefore, I would be a wee bit

sceptical about statements that are made about long-term investment in any local economy by an airline.

**Ivan McKee:** I thank the witnesses for coming. There has been a lot of discussion of the environmental impact, but I would like to focus on the economic impact. What is your view on how the economic case stacks up? You have made some comments on that already. The point of any reduction in the tax would be, as has been stated, to generate economic activity and business connectivity, which you have talked about. There are a number of ways to do that. You had questions earlier from Murdo Fraser about how the tax is best applied. Scotland needs to grow its economy, and the measure is seen as a way of doing that. Do you have or are you aware of any evidence or any numbers that show that cutting the tax will not generate the return that has been proposed? If not, do you think that there would be value in doing that analysis?

On segmentation, we have talked about outbound and inbound tourism, business connectivity and long and short-haul flights. From a purely business point of view, leaving aside the environmental aspects that you have talked about, do you see differential impacts as a result of that segmentation?

**Mike Robinson:** I will try to answer that as best as I can. On whether we believe the economic case, the short version of the answer is absolutely not for a moment.

**Ivan McKee:** My question was whether you have data to support that assertion.

**Mike Robinson:** Some of the data to support that are the wider statistics on the impact on passenger numbers. On business connectivity, there are reports on the price insensitivity of business travel. Because businesspeople tend to need to be somewhere, they pay what is going, and they are much less price sensitive than other travellers. Therefore, although the measure is meant to be to do with business connectivity, for that reason alone it is highly debatable whether it will have any great impact, whereas it will probably have much more of an impact on people who are just going on holiday, which was never really the intention.

**Chris Day:** We do not have the evidence. We are a fairly small organisation. We have tried to look at the contradictory evidence that has been supplied by those who have been arguing the case for a reduction, and we have challenged that. In my previous answer, I touched on the point that it is difficult to see at Scotland-wide level the evidence that, if we make the reduction, Scotland's economy will benefit. On a simplistic level, the UK economy is growing at about 2 per

cent, which is more than economies in the rest of Europe, yet we are told that this is the only country in Europe that charges APD. What is that about? I have a graph that indicates that air travel follows the economy.

Another striking thing about the data that has been supplied by the industry and the Scottish Government is that it assumes that, if we bring people into Scotland by one mode of transport, that is a free gain. They do not seem to consider that there are other parts of the economy relating to transport that might disbenefit. Claims are made about the number of jobs that would be generated at airports, but no questions are asked about the number of jobs that might be lost relating to long-distance coaches or the railway.

**Ivan McKee:** I appreciate all the points that you make, but I am asking whether we have evidence, and I think that I have got the answer. At the moment, the only analysis that we have seen is the one by Edinburgh Airport, which I think originally came from Biggar Economics.

**Chris Day:** Yes. As Mike Robinson says, there is a strong case for further independent evidence gathering—it has to be independent—to fill in some of the gaps in the evidence.

**Ivan McKee:** Yes, because clearly the result will depend on the assumptions that are made, and you are making lots of assumptions. It would obviously help everybody's analysis to be able to see, based on assumptions that you make and can support, what the impact would be if we did certain things—maybe some effects would not be as large and some would be bigger. As far as you are aware, there is nothing on that and nobody is doing it at the moment.

**Chris Day:** There might be, but I am not aware of it.

**Mike Robinson:** We are not aware of that. The tax is a clumsy tool and therefore differentiation in the way that it is applied would probably be helpful.

**The Convener:** I thank our witnesses very much for coming. I now close the meeting.

*Meeting closed at 11:26.*

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