



RECEIVED 16 SEP 2009

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Rt Hon Tessa Jowell MP
House of Commons
London
SW1A 0AA

Your ref: 01092352

14 SEP 2009

Dear Tessa,

Thank you for your letter of 16 July on behalf of your constituents about Air Passenger Duty.

Flying is relatively under-taxed, paying no fuel duty or VAT on tickets. The reforms to Air Passenger Duty strengthen the environmental signal of the tax, and help ensure that aviation contributes its fair share to public services.

In 2008, we consulted on proposals to replace Air Passenger Duty with a per plane tax. At the 2008 Pre Budget Report, we announced we would reform the existing Air Passenger Duty regime rather than proceed with a per plane tax. This was a decision that recognised the need to ensure greater stability in tax policy at a time of economic uncertainty, while maintaining environmental objectives.

In taking the decision to retain Air Passenger Duty, we have recognised the environmental signals it provides could be improved. In fact the responses to the consultation for the per plane tax highlighted that signals could be enhanced by adding a greater number of distance bands. While rates for all lengths of flights have increased, it is right that the rates for those flying further are higher.

Your constituents feel the reformed Air Passenger Duty is unfair towards the Caribbean. However, the average CO₂ emissions per passenger on a flight to Band C, which includes the Caribbean, are around 9 times more than for Band A (mainly Europe).

As part of the strengthening of the environmental signal in Air Passenger Duty, destinations have been banded in a straightforward, transparent, and administratively simple way. The reform increases the number of destination bands from two to four. These have been set at 2000 mile intervals, with the distance between London and capital cities determining what band a country falls within.



As there is no fuel duty on aviation, the new banding is intended to better reflect environmental costs in the price of air travel, and to ensure aviation contributes fairly to public services. Those travelling further should pay higher rates of Air Passenger Duty, and a geographical banding structure balances the aim of sending a stronger environmental signal with the need to make the reforms easy to implement.

Ticketing systems are based on national territories, and as such it is straightforward to base the tax on countries. The capital city is the most coherent and principled proxy. Where it is administratively simple to divide a territory at an appropriate point, as in the case of the Russian Federation, we have done so.

The increase in Air Passenger Duty by a total of £35 per person over the two increases in 2009 and 2010 does not represent a large percentage of the price of a return trip to the Caribbean. If, for example, there were VAT on the ticket that would add considerably more. The same £35 increase will also apply to all other countries in Band C, which is where the capital city is between 4000 and 6000 miles from London, to ensure the reform is consistent.

I have asked officials to continue to consider the effect of Air Passenger Duty on the Caribbean. However any carve-out for the Caribbean with respect to this tax, such as a specific exemption or provisions, could raise questions about both legality and potential distortions between comparable destinations, and this is something that officials are carefully considering.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alistair Darling'.

ALISTAIR DARLING