

## Reframing Aviation Policy

June, 2020

### **Building Back Better**

It is clear that the aviation industry is going to take years before demand returns to 2019 levels, with both S&P and Moody's Investors suggesting this may not happen until 2023 at the earliest. A report by NEF & the TUC suggest that as many as 17,000 jobs could be lost from the sector even if demand returns thanks to automation & changes to working practices.

This presents an opportunity to reset the UK's aviation strategy and initiate a green recovery. Such a recovery should set aviation on a fairer and more sustainable course, while providing any support necessary for workers to shift to green jobs.

Any review of aviation policy which must strike an equitable balance between the benefits aviation brings and its adverse environmental, economic and health costs.

### **Key Messages**

1. Creating an environmental aviation strategy fit for the future.
2. International aviation and shipping emissions must be included in legal net zero target. (*Expansion at Heathrow is out of context with the climate emergency.*)
3. Aviation policy must provide support for a just transition for those workers whose jobs may cease to exist.
4. Review Aviation taxes – with a view to utilise revenue raised to support workers & invest in genuinely sustainable aviation fuels.
5. Develop an aviation strategy that tackles regional inequalities. (*Expansion at Heathrow does not fit into a rebalanced economy.*)
6. Government must put social and environmental objectives at the heart of any bailout approach.
7. Political climate has changed and White Paper should drop 'growth everywhere' mantra.

### **Policy Framework for Decarbonisation**

Industry progress on decarbonisation has been painfully slow. In order to meet Net Zero targets there will need to be a robust framework from Government with strict targets and incentives to help boost investment and innovation.

The Government should take this opportunity to include international aviation and shipping emissions in the UK's carbon budgets as soon as possible.

The UK Renewable Transport Fuels Obligation should include a requirement for airlines to purchase genuinely sustainable aviation fuels (e-kerosene). This would help to provide an incentive for investment and innovation.

Electric or hybrid planes generate considerable interest, but are likely to make only a marginal contribution until after 2050 .

## **Jobs**

It is vital that transition arrangements are put in place which ensure that good quality employment in the sector is protected, while also facilitating the development of the skills necessary for roles in the future workplace.

Now is the right moment to put in place key measures to help ensure that in future the industry acts responsibly in terms of jobs, emissions and taxation. This should include:

- Creation of a new sector panel to develop a new bespoke, sector-wide, crisis support plan and package for aviation, with representation from unions, businesses, local communities and government.
- Commitment to a union-negotiated limit on redundancy rates across the sector.
- Delivery of a new skills and employment strategy, including conversion of the job retention scheme into a new job reskilling programme which protects employment while workers are supported to transition into alternative roles.

Priorities include providing workers with both the expertise needed to work within a lower emission and increasingly automated aviation sector, with new technologies and practices, and to enable shifts into other emerging industries and sectors. Particularly, arrangements are needed which put protections in place for lower-skilled and lower paid workers who will be most vulnerable.

The government should support businesses in adhering to a Union agreed redundancy rate by converting its current Job Retention Scheme into a bespoke part-time job retraining scheme.

In line with the principles of a 'just transition' for workers, the aviation sector would be able to make use of this bespoke extension until the sector has stabilised at a level of passenger departures compatible with the UK's national and international climate agreements.

## Taxation

The government should use its review of tax arrangements in the aviation sector to ensure that all companies make a fair contribution to the reduction of emissions.

Higher taxes, equitably levied, on flights from the UK would help both to reduce demand and to put the sector on a trajectory compatible with net zero. There are numerous taxes which could be combined to achieve this including:

- A frequent flier or air miles levy, which would be the most equitable instrument;
- VAT on plane tickets;
- Introducing excise duty on aviation kerosene;
- Raising Air Passenger Duty.

If aviation paid the same level of duty and VAT on its fuel, as motorists, revenue for the Chancellor would increase to over £11billion a year compared to the £3.8billion that APD raises today.

This contribution should include paying towards the costs of the Right to Retrain and job retention scheme, increasing investment in research and development within the sector, as well as investing in emissions reducing practices and technologies

Any revenue raised could be directed to investing into support for retraining and reskilling aviation workers, increasing investment in research and development and investing in emissions reductions technologies.

## Regional Balance

Government policy is to help rebalance the economy and this should seek to focus any growth in aviation (not airport expansion) in the regions, within existing planning constraints and ensure that this is compatible with net zero climate targets.

A new study by the [Institute for Economics and Peace](#) showed that larger cities with hub airports (London, Paris, Milan etc...) were a major factor in the spread of the coronavirus as a result of the greater interaction and interchange of people.

Reducing the dependence of airlines on a hub airport helps minimise the risk an airline faces if a route fails. Thus, point-to-point airports offer greater flexibility to the system that is more easily able to respond to changes to society and shocks to the economy.

A dispersed network of point to point airports, delivers more effective competition, drives prices down and produces other benefits, such as product differentiation to meet the demand of a wider range of consumers.

A dispersed network may also offer greater scope and flexibility to respond to future changes in passenger demand. For example, the effects of such growth might be spread across a number of locations rather than concentrated in one.

The gateway to the world is thus best delivered through multiple regional airports, to help spread economic growth around the country.

## **Bailouts**

It is likely that most aviation sector businesses will need further capital injection in coming months. The government must put social and environmental objectives at the heart of a new bailout approach and act immediately to set up a new financial assistance scheme.

All large-business bailouts must require a meaningful equity stake, which should be 30% as a minimum.

Warrants must also be issued which enable the Government to take a majority stake in the event that a business cannot repay a loan, or cannot meet the conditions of bailout. Conditions should include:

- Suspension of shareholder dividends and excessive pay-outs.
- Businesses commit to protecting wages, pensions, benefits, and contract arrangements.
- Support conditional on transparent and ethical tax practices, including banning support to companies with an ultimate ownership structure domiciled in a tax haven.
- Support conditional on investment in practices and technologies which reduce aviation emissions.

## **Aviation White Paper**

The White Paper deals with all airports other than Heathrow. However, in light of the Airports NPS being ruled unlawful it could be expanded to include Heathrow.

The White Paper provides an opportunity to drop the 'growth everywhere' mantra and set out robust plans for demand management options, incentives and penalties to ensure promised technological improvements are delivered and a framework of mechanisms to ensure that the industry pays for non-CO2 emission.

This could include:

- More robust noise proposals that close the existing regulatory gaps, including a process to ensure airports are accountable for their noise commitments.
- Meaningful, measurable targets are still required to protect the public from the impacts of aircraft noise on health and quality of life.
- A national level assessment for air pollution monitoring.
- A call for objective research into the impact of highly concentrated flight paths.
- Development of a reliable evidence base to assess impacts of airport operations on health & environment.