

A4E RESPONSE TO DUTCH PUBLIC CONSULTATION ON INTRODUCING A NATIONAL AVIATION TAX (05-07-2018 – 05/09/2018)

1. BACKGROUND (TRANSLATED FROM CONSULTATION PAGE)

International air traffic does not pay duties on fuel, neither does it pay VAT on tickets. As other duties and VAT, the introduction of an aviation tax benefits the government's general revenue to finance public expenditure. At the same time, the negative environmental impact of aviation would be better reflected in the cost for air travel. As such, an aviation tax could lead to lower price differences with other modes of transport which are less environmentally unfriendly, leading to different consumer behaviour. It can, however, depending on the circumstances (e.g. ticket prices and distance to an alternative airport abroad), also encourage consumers not to travel or to fly from an airport across the border where there is no aviation tax.

Question (translated from consultation page): *How do you view the above aspects of a tax on aviation? Are there topics that you wish to underline, and if so, could you please elaborate?*

A4E RESPONSE

- Aviation is a global business. As such it is subjected to intense competition in a market where margins on tickets are very small. A national tax on aviation would seriously distort competition and create an uneven playing field which would greatly damage the Dutch aviation sector.
- Aviation taxes are, as the name suggests, specifically designed to punish airlines for a perceived failure of measuring up to environmental standards. This could not be further from the truth. For decades, airlines have invested in modern aircraft and new technologies, including biofuels and battery powered jets, the result of which is that currently commercial jets have better fuel efficiency (3.0 - 3.5 liters per passenger kilometer) than most cars on the road.
- From 2021 onwards, there will be a global, ICAO (International Civil Aviation Authority) scheme for offsetting airline CO₂ emissions, named CORSIA (Carbon offsetting and reduction scheme for international aviation). Within the EU, the EU Emissions Trading Scheme (EU ETS) already mandates that airlines pay to offset their emissions. With this, the polluter-pays principle is already upheld -- twice. A further national tax on aviation would create the undesirable situation where costs are stacked at a local level, with locally-operating carriers hit the hardest – enabling an uneven and moreover damaging playing field.
- Furthermore, airline tickets already contain a multitude of taxes and fees. Already now, often more than half of the price of a ticket consists of specific taxes and additional charges.

2. RESEARCH ON VARIOUS OPTIONS AND PROCESS

Although the government prefers to favour a European solution, recently a second (taxing noisy and polluting aircraft) and a third option (passenger or ticket tax) have been looked at already. This was

necessary given that a gradual introduction of an aviation tax can take many years. CE Delft has carried out research with regard to the impact of the three different options – the results (included in this consultation) were distributed to the Dutch Parliament on 29 June 2018.

Question (translated from consultation page): *Do you have any comments regarding the above? If so, please elaborate.*

A4E RESPONSE

Studies in the Netherlands, e.g. by CE Delft, and others have concluded that national aviation taxes do not benefit the environment. As a result of capacity crunches and demand, national taxes do not lead to less flights but rather to moving flights and demand across borders. The result is that the net effect on CO2 emissions from aviation, noise and fine particles is marginal. Thus, it does not benefit the environment. Moreover, as stated above, aviation is a global business and offsetting should therefore be done as now rightly proposed at an international level via the CORSIA scheme and, until 2021, also through EU ETS for intra-EU flights. Aviation already contributes and is currently already heavily taxed in this sense.

3. OPTION 1: EU AGREEMENT ON AVIATION TAXES

VAT AND DUTIES

One of the reasons why the government is considering an aviation tax is the fact that internal air traffic does not pay a fuel tax, neither does it pay VAT on tickets. In order to introduce both of these taxes at EU level, a European Commission proposal is required as well as unanimity at the EU Council level. In order to tax fuel for air travel at an EU level, in theory this can be done by reviewing existing bilateral aviation agreements.

Question (translated from consultation page): *What is your opinion regarding these options? Do you see another opportunity for aviation to be included in VAT schemes and excise duties, and do you see a role for the aviation sector itself?*

A4E RESPONSE

- Instead of punishing the European aviation sector, EU Member States and the EU Institutions should focus on measures that would actually reduce CO2 emissions. After years of negotiating and the file being stuck in the EU Council over the political sensitivities surrounding Gibraltar, it is high time to agree on the Single European Sky 2+ package and to create a real European Single Sky (SES). Airlines currently operate in a fragmented airspace for rather short distances, forcing them to fly additional kilometers with extra CO2 emissions and extra costs as a result. A genuine SES would reduce CO2 emissions in Europe by 10%.
- Moreover, EU Member States, such as the Netherlands, together with the EU Institutions should focus on improving cross-border train connections on distances up to 500KM from major airports such as Schiphol. Train connections are currently often inefficient and therefore not a viable alternative for short distance flights.

- Lastly, the EU should focus on the development of first class alternative fuels, such as biofuels for aviation. Through research and the right investment, the sector can move towards cleaner fuel and less CO2 emissions altogether.

4. OPTION 1: EU AGREEMENT ON AVIATION TAXES

EU PASSENGER DUTIES

Various European countries, including Germany, the UK and France, currently have an aviation tax per departing passenger. These duties are not coordinated. Belgium, the Netherlands and Luxemburg do not have an aviation tax. One option could be for passenger duties to be coordinated more within the EU by, for instance, agreeing what a duty would be levied on, the scope of the duty and the distance, and how double taxation would be avoided. It may be conceivable to have a more permanent form of coordination amongst countries which either have introduced an aviation tax or are considering it. Another option could be to harmonize at EU level the main characteristics of such passenger duties. A more ambitious option would be to establish a genuine EU passenger duty.

Question (translated from consultation page): *What is your opinion on such options for more coordination or harmonisation of aviation taxes at European level? Do you see other opportunities for coordination at European level, and if so, could you please elaborate?*

A4E RESPONSE

- A 2017 PriceWaterhouseCoopers (PwC) 1 study showed that abolishing all aviation taxes in Europe (European Economic Area - EEA) would mean a real GDP increase of €10.5 billion in 2018, rising progressively each year and translating into a €25 billion increase in 2030. This means a €215 billion cumulative GDP increase in the EEA over a 12-year period.
- The value of new goods and services produced in the EEA's aviation industry would grow with an additional €3.4 billion each year – or €10.2 billion by the end of 2020.
- Abolishing all taxes would also mean that 40,000 new jobs would be created in Europe immediately in the year following the implementation, which means close to 110,000 new jobs by 2022. Sectors benefiting from the new jobs include tourism as well as manufacturing, services and other transportation modes.
- According to the PwC study, whilst countries will no longer receive tax revenues from the air passenger taxes, the tax cut would stimulate wider improvements in macroeconomic performance (employment, productivity, wages, consumption), and 97% of the tax cut would be recouped, mainly from labour taxes, social security and product taxes.
- Hard economic facts show that removing taxes is beneficial:
 - The Irish government abolished its aviation tax in April 2014. This led to extensive traffic growth at Irish airports and an 8% increase in tourism last year. In addition, the number of Northern

¹ <https://a4e.eu/wp-content/uploads/2017/10/The-economic-impact-of-air-taxes-in-Europe-EEA-1.pdf>

Ireland residents flying from Dublin increased by 52% the first year after the tax was scrapped. A 2017 PwC study showed that an additional 2.1 million passengers (+7.5%) travelled in Ireland in 2015 as a result of the abolition of the aviation tax.

- Scotland is planning to cut its air passenger duty (ADT) by 50% as a precursor to abolishing it entirely. The tax is said to cost Scotland €90 billion in lost tourism expenditures up to 2020. Slashing ADT will add €1.3 billion to the Scottish economy and create 4,000 jobs, according to studies from Edinburgh airport.
- A4E called on the UK government to abolish its Air Passenger Duty (APD) to boost British tourism and the economy. Introduced in 1994, its cost has risen by 830% until 2015. Economic analysis by PwC shows that removing APD would boost British GDP by 1.7% and create 61,000 new jobs by 2020.
- In addition:
 - The tax rate for short-haul trips in the lowest class of travel has increased by 160%, from £5 to £13 since 1994.
 - For long-haul trips the tax rate for the lowest class of travel has increased by 680%, from £10 to £78 since 1994.
 - The corresponding increases for travel in all other classes have been 420% for short-haul trips (from £5 to £26) and 1,460% for long-haul trips (from £10 to £156) since 1994.
- Economic analysis by PwC shows that the 50% reduction of the Air Transport Levy in Austria since January 2018 is expected to have a positive impact on the Austrian economy, notably by increasing the GDP by €230 million in 2020 and by €320 million in 2030, by creating 600 additional jobs in 2020 and 1000 jobs in 2030, as well as by adding 0.52 million tourists and 0.72 million arrivals by 2020.
- Analysis by PwC (also supported by the BDL – or German Aviation Association) shows that an abolition of Germany's Aviation Tax would positively impact the German economy by increasing the GDP by €4.1 billion in 2020 and by €6.9 billion in 2030. It would create 12,300 additional jobs by 2020 and 26,000 jobs by 2030. It would boost passenger traffic by adding 10.5 million tourists and 24.6 million arriving passengers between 2018 and 2020.
- According to a recent ACI Europe Airport Traffic Report (9 June 2018), while overall Europe's airport traffic grew by an average of 6.7%, airports in Sweden posted the lowest growth within Europe (1.5%), including due to the new aviation tax which was recently introduced in April 2018. Sweden was the only EU market losing passenger traffic in June (-0.4%), with the new tax among the factors leading to improved performance of neighbouring airports in Denmark (+5.7%).

5. OPTION 1: EU AGREEMENT ON AVIATION TAXES

VARIANTS 1A AND 1B

CE Delft's research looked at two variants of an EU ticket tax including three distance zones (cf. German aviation tax), related to the distance to end destination: 0-2,000 KM, 2,000-6,000 KM and more than 6,000 KM. Considering the objective of the Dutch government to raise €200 million p.a., the Dutch tax would be lower than the German aviation tax.

- *Under variant 1a, the study looks at the impact if all EEA Member States introduce such ticket tax in addition to existing (aviation) taxes;*
- *Under variant 1b, all EEA Member States introduce a ticket tax with minimum tariffs. Countries which have taxes of the same level or higher wouldn't have to adjust their tariffs.*

Question (translated from consultation page): *Do you have remarks on the two examined options and the effects thereof? If so, please elaborate.*

A4E RESPONSE

No. See the above response which details why A4E strongly opposes national aviation taxes.

6. OPTION 2: TAXING NOISY AND POLLUTING AIRCRAFT

NOISE STANDARDS AND MAXIMUM TAKE-OFF WEIGHT (MTOW)

A second option the government is considering is a national tax on noisy and polluting aircraft which would be based on a noise standard and a maximum take-off weight (MTOW) of the aircraft. Emissions correlate to these criteria - the higher the noise level and the MTOW, the higher the emission – and is not defined as separate criterion but the impact on emissions has been studied.

Question (translated from consultation page): *What is your opinion on this option? Are there in this context – focus on noise qualification and maximum weight determining the tax per plane – other issues that you wish to underline? If so, please elaborate.*

A4E RESPONSE

Many airports in Europe, including Schiphol, already have a charge on noise. Such charges could be further harmonized, e.g. at a European, or even better, at a global level. National taxes that vary greatly and merely put pressure on a sector that is already facing fierce global competition is not a viable option. It adds cost and, as pointed out above, it does not benefit the environment. We already have CORSIA and EU ETS, and efforts should focus on further research and development, investing in cleaner aircraft, encouraging people to use other modes of transport for shorter distances and finally creating a genuine Single European Sky.

7. OPTION 2: TAXING NOISY AND POLLUTING AIRCRAFT

IMPACT OF TAX PER AIRCRAFT

An argument against a tax per aircraft is that also transfer passengers and cargo are impacted. We refer in this context to Question 9 below, concerning the exemption of transfer passengers under a passenger duty regime.

Question (translated from consultation page): *How do you see a tax per airplane impact the sector?*

A4E RESPONSE

If also transfer passengers and cargo would fall within the scope of the tax, it would be greatly damaging for the hub-function of Schiphol airport, its traffic and activities generated by it. International passengers decide where to transfer on the basis of convenience, transfer time, but above all on price. A few additional euros per ticket can already make a passenger choose to transfer via a competing airport, with all the negative consequences for the Dutch economy as a result. This includes not only a loss of connectivity, but job losses as well – with a negative impact on growth and the attractiveness of that particular airport, city and country for business. Tourism would also suffer.

8. OPTION 2: TAXING NOISY AND POLLUTING AIRCRAFT**VARIANTS 2A, 2B AND 2C OF A TAX PER AIRCRAFT**

CE Delft looked at the impact of three variants for a tax per aircraft. Each variant differentiates between the noise standard (from louder to quieter) TB, TC, TD and TE, and its tariff determined per MTOW.

Under variants 2a and 2b, the tariff proportion per MTOW for louder vs quieter aircraft is 8:42:1. The difference is that the tariff under variant 2a is defined in such a way that it leads to the target revenue of €200 million;

Under variant 2b, these tariffs are doubled;

Under variant 2c, the targeted revenue is the same as under variant 2a (i.e. €200 million) but is more differentiated towards the noise level. The tariff proportion per MTOW for louder vs quieter aircraft is 18:7:3:1 which means louder aircraft pay more than quieter ones.

Question (translated from consultation page): *Do you have further comments on the three examined option and their effects and would you have a preference for a certain option? If so, could you please elaborate? Are there other points you wish to mention regarding a tax per aircraft, please elaborate.*

A4E RESPONSE

A4E strongly opposes the introduction of a national aviation tax in the Netherlands as a whole. Such national taxes harm the sector, move connectivity elsewhere and negatively impact growth and job creation making the Netherlands less attractive for transfer passengers, businesses and tourism. Most importantly, such a tax does not benefit the environment. Rather, Europe should focus on real measures to reduce CO2 emissions on top of schemes such as EU ETS and CORSIA which already safeguard the polluter-pays principle.

9. OPTION 3: TICKET TAX**TRANSFER PASSENGERS**

In those European countries that have a ticket tax (Germany, UK, France), it is not levied on transfer passengers – it is only levied on passengers who initiate their travel from the airport in question. On the other hand, the level of the tax in these cases depends on the end destination, irrespective of potential

transfers on domestic or foreign airports during the trip. In this way, a tax is levied only in the country where the travel originates, only once for the entire trip.

Question (translated from consultation page): *How do you view the design, in which only a tax will be levied on the flight departing from the country, one-off and for the entire trip? Could you please elaborate?*

A4E RESPONSE

Please refer to response to Question 8 and others above.

10.OPTION 3: TICKET TAX**VARIANTS 3A-3E**

CE Delft has studied five variants for a duty per passenger. All variants include a departure tax per passenger, excluding transfer passengers and cargo. The variants only differ in terms of number of tariff zones and tariffs.

Question (translated from consultation page): *Do you have remarks on the five explored options and their effects and do you have a preference for a certain option? If so, please elaborate.*

A4E RESPONSE

A4E has no preference for any of the presented options. All of them are bad for the Dutch and European aviation sectors as a whole and do not benefit the environment (see also answer to Question 2). We need to consider more effective means to reduce CO2 emissions as outlined above, e.g. finally complete Single European Sky, focus on fleet renewal, develop biofuels in Europe, etc.

11.GENERAL**SCOPE OF AN AVIATION TAX**

In almost all cases of an aviation tax, one has to determine which types of aircraft fall under its scope and which are subject to the tax. The Dutch ticket tax, valid during 1 July 2008 – 30 June 2009, was not applicable to the smallest aircraft and was levied at the five largest airports in the Netherlands. As a result, this type of taxation could fall under the existing charges system of the airports. However, other choices are possible.

Question (translated from consultation page): *Are there other issues at this stage that you wish to raise when the government would re-introduce a tax on aviation?*

A4E RESPONSE

- A4E would like to point out to the Dutch government, and the responsible ministries that are now considering introducing a national tax in particular, to the mistake that was made in 2008 when the Dutch government introduced a national tax on aviation which was a disaster for the Dutch aviation sector.

- Many passengers went across the border to travel and flew from Belgium and Germany. At the time, this had major negative consequences for the Dutch economy, in terms of employment and in particular for the people working in the Dutch aviation sector. Unsurprisingly, the Dutch tax was quickly abolished again in 2009 for obvious reasons. We strongly advise the Dutch government to look again at what happened in 2008 and call on the responsible Ministries to look at better alternatives to make the sector more sustainable.

12. GENERAL

ADMINISTRATIVE BURDEN AND IMPLEMENTATION COST

An important criterion in the decision for which option is preferable, is that new taxation should avoid unnecessary administrative burden for businesses involved and should remain practical.

Question (translated from consultation page): *Would you on this point have any additional remarks and suggestions, and if so, could you please elaborate?*

A4E RESPONSE

Not only should additional administrative and operational burdens be taken into consideration when considering the introduction of a national aviation tax, but also the preservation of a level playing field for a global sector and actual benefits for the environment. In the first two options this is still partly taken into consideration, but it is completely absent in the third option.

13. GENERAL

NEXT STEPS

After the summer, the government will decide which variant will be developed further. Both for its decision and further steps will it consider the input of this consultation.

Question (translated from consultation page): *Would you in this context still have comments or suggestions that were not made earlier and that you believe the Dutch government should take into consideration?*

A4E RESPONSE

A4E strongly recommends working closely with the aviation sector to find solutions to make the sector more sustainable, for instance by jointly investing in the development of biofuels and cleaner and less noisy aircraft. There should be an ongoing dialogue between the sector and policy makers to find solutions. There are better ways to make aviation more sustainable than a simple flat ticket tax that does not only harm connectivity, location climate (in this case the Netherlands) and employment, but also puts the break on research and investment into more sustainable solutions.

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