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Mr. Wopke Hoekstra
Minister of Finance
Government of The Netherlands

September 5, 2018

RE: <u>Aviation Tax Proposals</u>

Dear Minister Hoekstra:

Airlines for America ("A4A") appreciates the opportunity to comment on the Dutch Government's aviation taxation proposals, which we understand include consideration of pursuing a Europe-wide agreement on the taxation of aviation; a national levy on noise and carbon dioxide (CO_2) and other emissions; jet fuel-related taxes; and/or a national ticket tax. A4A is the principal trade and service organization for the U.S. scheduled airline industry.[1] Our members have significant operations to The Netherlands and have a strong vested interest in the subject matter of this consultation. We support the comments that the International Air Transport Association ("IATA") has prepared, which express clear opposition to all the taxation proposals under consideration, but we supplement them here with brief observations of our own.

First, we are concerned that many of the proposals are inconsistent with the U.S.-EU Air Transport Agreement ("ATA"). For example, the potential proposal to introduce a VAT and/or excise duty on jet fuel is inconsistent with the tax exemption for jet fuel enshrined in Article 11 of the ATA. Equally, other proposed taxes violate Articles 3 and 15 of the ATA because they represent inadmissible charges on the departure of aircraft.

Second, the introduction of a tax purporting to address aircraft emissions is unnecessary and would be counterproductive. The Netherlands has asserted a potential market failure in terms of insufficient noise and emissions regulation as a basis for imposing an additional tax as a market-based measure to motivate noise and emissions reduction. Yet, there is no basis in fact for that premise. Indeed, the U.S. airlines, like their counterparts around the world, have a tremendous environmental record and are committed to sustainable aviation growth.

For example, for the past several decades, the U.S. airlines have dramatically improved fuel and emissions efficiency by investing billions in fuel-saving aircraft and engines, innovative technologies like winglets (which improve aerodynamics) and cutting-edge route-optimization software. As a result, between 1978 and year-end 2016, the U.S. airline industry improved its

[1] A4A members are: Alaska Airlines, Inc.; American Airlines Group, Inc.; Atlas Air, Inc.; Federal Express Corporation.; Hawaiian Airlines; JetBlue Airways Corp.; Southwest Airlines Co.; United Continental Holdings, Inc.; and United Parcel Service Co. Air Canada is an associate member.

fuel efficiency by over 120 percent, resulting in over 4.4 billion metric tons of CO_2 savings – equivalent to taking 24 million cars off the road on average in each of those years. Further, data from the U.S. Bureau of Transportation Statistics confirms that U.S. airlines burned 3 percent less fuel in 2016 than they did in 2000, resulting in a 3 percent reduction in CO_2 emissions, even though they carried 28 percent more passengers and cargo on a revenue-ton-mile basis.

With specifical respect to local air quality emissions, A4A members and their counterparts are fully compliant with the stringent carbon monoxide, smoke and particulate matter, and oxide of nitrogen (NOx) standards established by ICAO. With carbon monoxide having virtually been eliminated from jet aircraft emissions, the regulatory focus has been on the NOx standards, with nearly continual tightening of the standards. Indeed, the most recent ICAO NOx standard represented an approximately 15 percent reduction in NOx from the prior standard adopted in 2005, which itself mandated a 12 percent NOx reduction relative to the standard that had been adopted in 1999. This downward trend in NOx emissions is expected to continue, as ICAO's environmental committee has set mid-term and long-term technology goals for the development of additional technologies capable of reducing NOx emissions. Moreover, as The Netherlands is aware, ICAO currently is working on new stringency levels for its non-volatile particulate matter standard, even though that standard was updated and converted from a smoke standard just two years ago.

Likewise, the industry has a tremendous record of noise reduction. With a strong track record of deploying new, quieter technology, and the implementation of noise abatement operational procedures, airlines have played an important role in reducing noise exposure. The aircraft themselves are over 75 percent quieter than they were 40 years ago, and we fly them quieter. Indeed, statistics from the Federal Aviation Administration (FAA) confirm that the number of people exposed to significant levels of aircraft noise in the United States has dropped by 94 percent since the late 1970s, even as enplanements have quadrupled. As our member airlines have integrated newer and ever quieter aircraft into their flights, they have contributed to similar reductions in aircraft noise in international operations, including in The Netherlands.

As noted, there is no justification in fact for a new environmental levy on aviation. Further, such a tax almost certainly would be counterproductive. The Netherlands has provided no indication that the revenues collected would be dedicated to mitigating environmental impacts. Indeed, the tax more likely would result in net harm to the environment by depriving airlines of revenues to invest in the technology needed to further reduce their environmental footprint, including investment in ever-more environmentally friendly aircraft and sustainable alternative aviation fuels.

Third, were The Netherlands to impose tax addressing greenhouse gas emissions (whether as a carbon tax or a jet fuel tax used as a surrogate), this would undermine successful, ongoing international collaboration to address aviation climate change effects. As a direct participant in the proceedings, The Netherlands is aware that, in October 2016, under ICAO auspices, the world's governments and the aviation sector agreed a Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA"), a global market-based CO_2 emission offset scheme for international air transport. In return, States agreed to eschew or abandon duplicative national measures, including measures such as the taxes that The Netherlands is now considering. The preamble to ICAO Resolution A39-3 reiterates that economic market-based measures should not be duplicative and international aviation CO_2 emissions should be accounted for only once.

Paragraph 19 reinforces this point where it specifies that CORSIA "is to be **the** market-based measure applying to CO_2 emissions from international aviation." The Netherlands risks undermining ICAO efforts by introducing a tax that runs contrary to the spirit of this ongoing international collaboration, an unfortunate result given the critical leadership role that The Netherlands played in promoting CORSIA in the first place.

Finally, an aviation tax is likely to have a negative impact on the Dutch economy (trade and investment), the traveling public, and air carriers that provide The Netherlands with vital connectivity. In 2009, The Netherlands introduced an aviation tax only to repeal it the following year after Schiphol lost 1.4 million passengers and the country's annual GDP declined by €1.3 billion. The losses were due in large measure to diversion of traffic to neighbouring countries. History illustrates the economic risks that The Netherlands faces if it introduces additional aviation taxes.

In A4A's view, the Dutch Government should focus its energies on the promotion of CORSIA and partner with the aviation industry in developing the technology, operations and infrastructure measures that will provide long term solutions to ensure sustainable growth. Unlike the tax proposals, this partnership can make a real difference by helping the industry to achieve its ambitious goals, including carbon neutral growth from 2020 and the reduction in net aviation CO_2 emissions of 50 percent by 2050 relative to 2005 levels.

Thank you for your kind attention. Please do not hesitate to contact us if you have any questions or require further information.

Sincerely yours,

Nancy N Young

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