AIRLINES FOR EUROPE

POSITION PAPER
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A4E'S POSITION ON THE ENERGY TAXATION DIRECTIVE

Abstract

This paper sets out A4E's position on the Energy Taxation Directive (ETD) and A4E's recommendations to policymakers.

European airlines are committed to reaching net-zero CO2 emissions by 2050 and to significantly contribute to the EU's 2030 decarbonisation targets. Our independent report "Destination 2050: A Route to Net-Zero European Aviation" lays out the roadmap for European Aviation[1] to achieve this goal.

A4E and its members are strongly concerned that the introduction of an aviation fuel tax would be a setback for the decarbonisation efforts of the European aviation industry and jeopardise our global competitiveness. The threat to competitiveness stems from the fact that air transport is governed by international agreements which exclude taxation.

Next to this, the proposal risks harming the EU tourism sector which is vital for the economy of southern and peripheral EU regions.

Introduction

Introducing a kerosene tax will not help the EU achieve its climate goals. It would disproportionately affect travel within the EU and have a negative impact on travel from the EU to third countries via EU airports.

As the tax will apply only to flights within the EU, it will lead to more CO2 emissions due to detours and attempts by some operators to avoid the tax. This is on top of the carbon leakage problem, which could see traffic moving to non-EU countries.

[1] Destination 2050 - A route to net zero European aviation, A4E, ACI Europe, ASD, ERA, CANSO, February 2021.

About A4E (Airlines for Europe) Airlines for Europe (A4E) is Europe's largest airline association, based in Brussels. A4E works with policy makers to ensure aviation policy continues to connect Europeans with the world in a safe, competitive and sustainable manner. As a key initiator of aviation's Destination 2050 roadmap, A4E and its members committed to achieve Net Zero carbon emissions for their own operations by 2050. With a modern fleet of over 3,200 aircraft, A4E airlines carried 270 million passengers in 2021 -- down from 700 million in 2019 due to the COVID-19 pandemic. Each year, A4E members with air cargo and mail activities transport more than 3.7 million tons of goods, life-saving vaccines and essential medical equipment to more than 360 destinations either by freighters or passenger aircraft. Follow us on Twitter @A4Europe.

As confirmed by recent studies, people will not stop flying but will just fly to non-EU destinations. This effect could be even stronger due to the current cost of living crisis, which is making consumers even more price sensitive.

Doubling the price of CO2

Introducing a kerosene tax on intra-EU flights would effectively create a redundancy in the EU's Emission Trading System (ETS) and the charges that already exist on jet fuels.

The EU ETS already provides a harmonised market-based price for carbon in Europe and is a targeted policy specifically designated to make aviation more sustainable. It is important to bear in mind that the EU ETS achieves this more effectively because:

- The EU ETS has a wider geographic scope than the tax jurisdictions of the 27 EU Member States. Experience from other sectors shows that Member States are bound to impose starkly diverging taxes on kerosene. This will undermine the Single European Market for air travel.
- As a cap-and-trade system, the EU ETS effectively removes quotas from the atmosphere while offering the possibility to hedge against unforeseen fluctuations in carbon prices. National kerosene taxes offer less predictability, no opportunity to hedge against such risks and don't reduce emissions.

Risk of carbon leakage and harm to the single market

A kerosene tax that would set minimum tax rates for intra-EU flights is likely to have the most negative impact, as it may open the door to different rates inside the single market, potentially creating distortions and fragmentation between Member States.

As the tax would have a limited geographical application, it will encourage traffic diversion to non-EU countries, both for connecting and direct flights. At the same time carbon leakage could arise due to non-EU companies offering cheaper fares to passengers from airports outside the EU, rather than travelling via EU airports.

A recent study[2] on the impact of the carbon leakage risks for short-haul networks in 'Fit for 55' confirmed that in 2030, the ETD and the ETS compound effect will generate a high level of carbon leakage (74%) and the EU will lose around 77 million passengers to airports outside of the EU.

[2] Steer (2022) Carbon leakage risks from scope of aviation policy measures in 'Fit for 55'.

Taxing aviation fuel won't reduce CO2

There is little evidence that taxing aviation leads to lower CO2 emissions[3]. A recent study from Eurocontrol found that economic output is the primary factor influencing demand and hence higher or lower CO2 emissions.

In Germany, despite the introduction of a departure tax on 1 January 2011, CO2 emissions increased by 4.2% that year. Similarly in Italy, where departure taxes were increased by almost 40% on 1 January 2016, CO2 emissions increased by 5.2% that year, while traffic from Italy fell by just 1.4%.

These examples show that the influence of fuel or ticket taxes has had only a limited effect on the growth of emissions.

No guarantee of reinvestment in sustainability measures

There is no guarantee that national revenues from a kerosene tax will be reinvested in the decarbonisation of the aviation sector and will help the EU reach its ambitious climate goals.

The aviation sector is already subject to national charges and taxes – for example for security – that no other mode of transport must pay. This stands in contrasts with the ETS where a proportion of revenues is re-invested in sustainability measures.

Connectivity and tourism at stake

Europe's tourism sector is heavily dependent on aviation, with 59% of all international tourism arrivals relying on air transport[4]. There is a concrete risk that EU airlines and airports will lose out in favour of neighbouring countries like Turkey, Egypt, Marocco, Israel, Jordan, as it will be cheaper to operate directly from these places or to connect flights to and from non-EU countries.

The EU's tourism sector, which is a very important part of the economy, particularly in southern and peripheral EU regions, will lose out against non-EU destinations. Destinations like Turkey, Egypt and Morocco are already more affordable for EU travellers than comparable EU destinations. In the context of the current cost of living crisis, which is putting families' budgets

[3] Eurocontrol (2020) Does taxing aviation really reduce emissions?
[4] UNWTO (2020) International Tourism Highlights.

under pressure, customers are more than ever susceptible to making decisions based on (the lowest) price.

The introduction of a kerosene tax on intra-EU flights will therefore lead to a reduction in tourist arrivals into EU tourism destinations, leading to a negative impact on jobs and income for tourism related businesses (e.g., hotels, restaurants, attractions, other touristic service providers) and their respective local supply chain.

A recent study commissioned by the Spanish Airline Association (ALA)[5] found that, based on the EC´s initial proposal, the tax on kerosene would result in 169,000 job losses and a reduction of 4.5 million tourists (-5.7%) in Spain. A similar impact could be expected across the EU.

The socio-economic impact could also result in risks for cohesion, regional development, and equality.

Diverting funds away from investment in decarbonisation technologies and SAF production

Introducing a kerosene tax on intra-EU flights will not help the airline industry access the necessary technologies to decarbonise nor benefit SAF production.

Kerosene will still need to be used for many years due to a lack of alternative solutions. In 2030, when we expect at best that 6%[6] of the fuel used in aviation in Europe to be SAF, the taxation applicable to kerosene is estimated to be around 6.14 EUR/GJ. In 2035, by the time the kerosene taxation reaches 12.28 EUR/GJ, SAFs will represent only 20% of the fuel in aviation.

This additional cost will have no additional impact on the development of decarbonisation solutions. It will in fact divert funds away from being invested in decarbonisation solutions (including limiting investments in SAF) to the detriment of the aviation sustainability efforts.

In this context[7], the planned review of the ETD on how it applies to the aviation sector would lead to an additional €4 billion annually in compliance costs for airlines in 2030 and up to €5.1

[5] Deloitte (2022) Flying towards a sustainable future. An analysis of the socio-economic impact on Spain of overlapping airline industry policy measures.

[6] The actual target of the SAF mandate is one of the key issues where EP and Council diverge. Nevertheless, due to the lack of significant SAF production and concerns about how the raw material used for the production of SAF could compete with food or feed production, we expect at best that 6% of the fuel used in aviation in Europe in 2030 will be SAF. In 2035 it is however expected to increase to 20% of total fuel.

[7] In terms of costs, if forecasts of future energy prices are extremely speculative exercises these days, the aviation industry's Destination 2050 report foresees the following price evolution in the next decade. In 2030, relevant costs would near: Kerosene – 600 €/tonne (excl. CO2); HEFA pathways with various waste and residue feedstocks – 1,170

billion in 2035[8]. This would subsequently add to ticket prices in 2030 and 2035: € 7.95 (2030) and € 9.30 (2035) for short-haul (1,500 km) (Domestic or intra-EEA) flights. For medium-haul (3,000 km) (Domestic or intra-EEA): €15.90 (2030) and € 18.60 (2035).

These projected costs come on top of the anticipated new costs linked to the reform of the EU ETS and the new ReFuelEU legislation.

US Inflation Reduction Act (IRA) vs ETD

The proposed review of the ETD comes at the same time as US Inflation Reduction Act (IRA). The SAF credits this introduces are expected to close the price gap between kerosene and SAF, bringing SAF closer to price parity with kerosene.

The US Government is also putting in place a structured scheme that incentivises the production of SAF through three incentive mechanisms[9], in addition to other incentives for SAF, such as the SAF Grand Challenge, which aims to reduce costs and increase production capacity.

In contrast, the revision of the ETD would see the implementation of a tax on all generations of jet fuel as well as biogenic SAF (HEFA), ultimately impacting on the attractiveness of SAF by increasing its price further.

A4E's recommendations

Instead of introducing a kerosene tax, **A4E calls on legislators and aviation stakeholders to**:

- Continue to focus on **smart economic instruments such as the EU ETS**, which already impose a high carbon price on aviation and ensure they contribute towards the objective of reducing CO2 emissions in Europe.
- Strengthen **worldwide schemes such as CORSIA** to ensure a fair pricing of CO2, where global approaches are best suited to a global sector such as aviation in terms of effectiveness and keeping a level playing field.

€/tonne; Advanced feedstocks combined with FT, ATJ, SIP – 2,765 €/tonne; Power to Liquid FT / RFNBO – 2,900 €/tonne.

[8] SEO, NLR (2022) The price of net zero. Aviation costs of the EU's Fit for 55 Proposal.
As the forecast is based on the EC's initial proposal COM(2021) 563 final (re: linear phase-in between 2023 (rate of zero) and 2033 (€10.75/GJ) for fossil kerosene), the cost analyses is underestimating impacts.

[9] 1. Tax credits for producers and distributors ("SAF Blenders Tax Credit" (BTC)); 2. a "Clean Fuel Production Credit" (CFPC)), as well as; 3. a grant program ("Sustainable Aviation Fuel and Low-Emission Aviation Technology Grant Program")

- Continue to focus on **real decarbonisation policies as the SAF blending mandate**, which concretely reduce CO2 emissions.

A balanced approach is crucial to promote sustainability, encourage and enable the future decarbonisation of the industry, while preserving economic competitiveness and social benefits to citizens and consumers.