

**A4E'S RESPONSE TO EUROPEAN COMMISSION'S CALL FOR EVIDENCE FOR
AN EVALUATION AND IMPACT ASSESSMENT ON
VAT RULES APPLICABLE TO TRAVEL AND TOURISM SECTORS**

Introduction

A4E urges the European Commission to retain the current VAT regime for air transport services, as set out in Directive 2006/112/EC, which acknowledges the aviation sector's unique economic, operational, and legal characteristics.

The European airline sector is an enabler of connectivity and competitiveness and is of critical importance for European economies and citizens. In 2024, aviation generated €851 billion in EU GDP (5% of EU total)¹ and supported more than 14 million jobs².

VAT rules for air transport services have proven effective over the years and a possible revision would run counter to the European Commission's general objectives of enhancing the competitiveness of European industries and reducing existing administrative burdens.

European airlines are already subject to significant and growing cost pressures. The cost of regulatory compliance in Europe for A4E member airlines has tripled over the past 10 years to €15.5 billion and it is projected to double again to €27.5 billion in 2030³. National ticket taxes and environmental charges are among the main cost drivers, and their continued increase already impacts ticket prices⁴ and connectivity⁵.

The problems outlined in the European Commission's call for evidence for an evaluation and impact assessment of the VAT rules applicable to the travel sector⁶ do not reflect the reality of the airline and transport industry:

1. Increasing VAT on air transport services risks harming the competitiveness of European airlines in favor of non-EU carriers, leading to traffic diversion and carbon leakage.
2. VAT is not an environmental tax and linking it to climate goals is misleading. It would discourage European airlines' decarbonisation efforts and ignore that neither rail nor road are often viable alternatives.
3. Any short-term budget gains for Member States would come at the cost of connectivity, socio-economic growth and would negatively affect the Europe's tourism industry.
4. The current VAT regime does not distort competition between transport modes. Airlines operate in a liberalized market, receive fewer subsidies, and cover most of their infrastructure and external costs, unlike other transport operators.

¹ SEO Amsterdam Economics, ACI EUROPE - Benefits of Airports & Air Connectivity, 2024

² ATAG, Aviation Benefits Beyond Borders, 2024

³ Steer, Assessment of the cost of regulatory compliance of European Airlines, 2025

⁴ In total, taxes and charges already account for almost 50% of the ticket price in France and Germany

⁵ ACI-E, Airport Industry Connectivity Report - Chart 4, 2025

⁶ Ref. Ares 6023464, 2025

5. The existing VAT system remains valid and practical. Changes would only increase administrative burdens for airlines, reduce legal certainty and conflict with international standards.

When evaluating the existing legislative framework and assessing a possible revision, A4E calls on the European Commission to adequately consider the cumulative burdens on the sector - including both existing and planned taxes. Any reform of VAT rules for the transport sector must align with the EU's broader goals of competitiveness, connectivity, and administrative simplification. Increasing VAT on air transport and related services would risk undermining these objectives.

1. A VAT for aviation will jeopardise the level playing field within Europe

European airlines operate in a highly competitive market where unilateral EU policies significantly raise the cost of flying to, from, and via the EU. A VAT on air transport services will once again place Europe and its airline industry at a disadvantage compared to third countries. It will undermine the competitiveness of European destinations and hubs in global markets, potentially diverting traffic outside Europe and weakening the EU's strategic connectivity.

Applying VAT to extra-EU flights would be difficult, either because it is not permitted under aviation treaties or because it is politically unfeasible. As a result, the proposal will exacerbate the distortion of competition between EU and non-EU hubs and destinations.

Traffic data already confirms a significant shift in passenger flows toward alternative, often more affordable destinations and hubs. Turkey, for example, has experienced a 36% increase in air connectivity compared to 2019. In contrast, several major European hubs continue to underperform relative to pre-COVID levels: Germany recorded a 21% decline, France 14%, and the Netherlands 9%.⁷ Most of the countries where air connectivity remains below 2019 levels are those with punitive passenger taxes in place.

By 2030, EU climate costs will make flying from Nice to Tokyo via Europe 15% more expensive than via Istanbul - doubling the 2024 difference⁸. This implies that two-thirds of lost passengers will still fly but through the non-EU hub.

Destination switching is likely to intensify with the introduction of a VAT on European air transport services, which would further increase the cost of intra-EU flights. Price-sensitive leisure travelers may shift toward cheaper alternatives—either nearby non-EU destinations (e.g., Morocco instead of Malta or Spain) or long-haul options (e.g., Southeast Asia instead of Europe) - where airlines are not subject to the same tax or regulatory burdens.

⁷ ACI, Airport Industry Connectivity Report, 2025

⁸ Deloitte, Creating a level playing field for decarbonisation in aviation, 2025

This trend is particularly concerning for peripheral EU tourist destinations such as Malta, Cyprus, Spain or Greece, which could become less competitive compared to geographically close non-EU destinations unaffected by EU measures.

Additionally, people living on the EU's periphery may increasingly choose to fly from nearby non-EU airports and airlines operating outside Central European hubs risk losing their transit passengers - essential for maintaining a broad intra-EU network and ensuring a level of connectivity that would not be possible based solely on national market demand.

Many non-EU countries already exempt or zero-rate air transport services, including the USA, China, Japan, the UAE, or Turkey. This results in significantly lower operational costs for airlines based there, compared to their European counterparts.

In conclusion, introducing a VAT on intra-EU aviation will not stop people from flying. Instead, it will divert traffic outside Europe - ultimately harming European industries and diminishing the EU's global competitiveness.

2. VAT is not an environmental tax and will not make the industry more sustainable

There is little evidence that taxing aviation leads to lower CO2 emissions⁹. Additional taxes are more likely to divert funds away from much-needed investment in decarbonisation solutions. The EU Competitiveness Strategy by Mario Draghi confirms that decarbonising aviation is projected to cost €61 billion annually from 2031 to 2050.

The current call for evidence suggests that “changes in the VAT treatment of passenger transport should have positive effects in terms of promoting greener forms of consumption.” However, this overlooks the fact that neither rail nor road transport can offer viable alternatives — especially in remote or less-connected regions of Europe. Furthermore, diverting funds from aviation could hinder investments in sustainable aviation fuels (SAF), decarbonisation technologies, and fleet renewal.

Finally, VAT is a consumption tax. Using it to pursue environmental objectives contradicts its fundamental principles and would likely lead to significant demarcation and interpretation problems.

VAT is not designed as an environmental tool and using it as such could undermine airlines' environmental progress. Instead, policy efforts should focus on enabling investments in aviation decarbonisation.

⁹ Eurocontrol, Does taxing aviation really reduce emissions?, 2020

3. Additional taxes will come at the cost of connectivity and socio-economic growth

Taxes specifically levied on aviation restrict the social and economic benefits the industry provides and disproportionately affect island or peripheral economies, where direct air connectivity remains essential for tourism, employment and economic growth. A 10% increase in air connectivity leads to a 0.5% increase in GDP per capita and a 1.6% rise in employment.

Data from Spain shows that a 6.5% increase in ticket prices due to additional taxation would result in an 8.7% drop in passenger demand, with 40% of that demand shifting to non-EU destinations. Spain would lose 52,588 jobs and tourism would decline by 7.4%.¹⁰

Similar effects have been projected for Italy and Portugal¹¹, with even more significant impacts expected in countries like Greece, Cyprus, and Malta, due to their heavy reliance on air connectivity.

In conclusion, the specific conditions of insular and peripheral Member States - e.g., Greece, Cyprus, and Malta, as well as Spain, Portugal, and Italy - must be recognised. In these regions, where access by alternative transport modes is limited, maintaining VAT exemptions is essential to safeguarding connectivity, supporting social cohesion, and ensuring equal access to mobility across the Union.

While these taxes may offer short-term budgetary gains for Member States, they come at the **expense of long-term socio-economic growth**. The additional national revenues will **not offset the decline in GDP and the cumulative negative impact on local economies, including job losses, reduced connectivity and tourism demand**.

4. The current regime does not result in distortion of competition among transport modes

A 0% VAT rate for air transport services does not lead to a distortion of competition among transport modes¹². The fact that air fares are often lower than those in other transport sectors is primarily due to the liberalisation of the EU air transport market, which has progressed further than in other sectors and has resulted in higher efficiency, to the benefit of consumers.

¹⁰ Steer, Economic Impact Assessment of Energy Taxation Directive on Travel and Tourism in Europe, 2023

¹¹ Steer, Economic Impact Assessment of Energy Taxation Directive on Travel and Tourism in Europe, 2023

¹² As confirmed by European Commission, Study on the economic effects of the current VAT rules for passenger transport Final Report, 2024. The assessments carried out in this report indicate that the distortions are generally small sized while the greatest potential of introducing VAT in the passenger transport sector lies in its revenue-generating capacity for Member States.

Direct subsidies in the rail sector are significantly higher than in aviation. Overall, infrastructure subsidies for railways in the EU were estimated at €40.65 billion in 2022¹³. Furthermore, aviation internalises nearly all of its externalities, being responsible for only 5% of the total external costs of transport in the EU, compared to 83% for road transport¹⁴.

It is also important to note that two-thirds of EU countries apply a 0% VAT rate on all international transportation.¹⁵ This demonstrates that calls for changes to VAT rules, under the pretext of creating a level playing field across transport modes, may be misleading.

Moreover, European airlines finance their infrastructure costs directly through airport and air traffic management charges, unlike other transport sectors. In some EU Member States, airlines also cover airport security costs - expenses which are typically borne by the public sector in other modes of transport. Any VAT reform should account for these structural differences, rather than penalise aviation for its self-funded infrastructure model.

The current VAT regime does not distort competition between transport modes. Aviation operates in a more liberalised and competitive market environment, receives comparatively lower subsidies, and bears the majority of its infrastructure and external costs.

5. A VAT for aviation will add complexity and administrative burdens

The 0% VAT rate for air transport services is justified by the intrinsic nature of the airline sector, which operates across multiple jurisdictions, often within a single journey, unlike other modes of transport. Any change to the current system would introduce significant administrative burdens and run counter to the EU's broader objective of reducing red tape and simplifying compliance for businesses.

When the current rules on VAT for passenger transport were developed, they reflected what was considered the most workable solution at the time - and this remains the case today, as confirmed in one of the latest Commission's consultations on the issue.¹⁶

Any alternative rule applying to air transport services would likely involve equal or greater complexity. For example, if airlines were required to pay VAT based on the passenger's place of departure, they

¹³ European Commission, SWD accompanying the Commission's 9th monitoring report on the development of the rail market, 2025

¹⁴ European Commission, Sustainable Transport Infrastructure Charging and Internalisation of Transport Externalities: Main Findings, 2019

¹⁵ European Commission, Study on the economic effects of the current VAT rules for passenger transport Final Report – Volume, 2014. Exceptions exist in countries such as Austria, Belgium, Croatia, Germany, the Netherlands, and Spain, which do apply VAT on certain road and rail transport services

¹⁶ European Commission, VAT – The Place of Supply of Services to Non- Taxable Persons - Summary Report on the outcome of the public consultation from DG TAXUD, 2005

would need to track connecting flights and additional logistical details, making implementation significantly more difficult.

In conclusion, maintaining the **current VAT zero rate** is the most practical and efficient approach, **ensuring both regulatory consistency and operational feasibility for the European airline industry.**

6. Why VAT Exemption on certain input supplies should be preserved

The current VAT exemption applies to key supplies such as fuel, reprovisioning, repair, and maintenance. These exemptions are essential to maintaining operational continuity and connectivity, especially during disruptions. Imposing VAT on these transactions would:

- Introduce cash flow challenges for airlines, particularly in cross-border operations where VAT recovery is delayed or uncertain.
- Complicate border controls and logistics, especially for time-sensitive aircraft parts and maintenance operations.
- Undermine resilience and recovery during operational disruptions, affecting passenger experience and network reliability.
- Given the international nature of aviation, applying VAT to these supplies would create inconsistencies across jurisdictions and increase compliance costs without delivering proportional revenue or environmental benefits.

Maintaining the **VAT exemption on input supplies** including fuels, reprovisioning, repair and maintenance **is crucial to support the smooth and efficient functioning of the European airline sector.**

7. International dimensions

ICAO Resolutions (Doc. 8632) explicitly support the exemption of international air transport from VAT and endorse zero-rating with full input tax recovery. This exemption is a cornerstone of global aviation taxation policy and reflects the inherently cross-border nature of the sector. Removing it could potentially trigger retaliatory measures, particularly in cases where airlines from third countries operate intra-EU services under fifth freedom traffic rights.

In the absence of Double Tax Treaties for VAT, such changes could result in cascading taxation, leading to double taxation and significant legal uncertainty for both operators and passengers. This would not only disrupt established international aviation norms but also undermine the EU's role in promoting a harmonised and predictable global framework for air transport.

Conclusion

The European airline sector is undergoing unprecedented changes, with regulatory cost pressures increasingly putting EU airlines at a competitive disadvantage compared to non-EU carriers. The next two decades will be crucial for ensuring the competitive decarbonisation of aviation.

The VAT rules currently in place for the aviation sector have proven effective over the years, as confirmed by various assessments and consultations conducted by the European Commission.¹⁷ Revising them would run counter to the Commission's broader objectives of enhancing the competitiveness of European industries and reducing administrative burdens.

Rather than pursuing short-term budgetary gains that ultimately penalise the European economy, competitiveness, and attractiveness, we urge the European Commission to retain the existing VAT system and focus on those measures that can establish a level playing field for European airlines while supporting their decarbonisation.

¹⁷ European Commission, Study on the economic effects of the current VAT rules for passenger transport Final Report, December 2014; VAT – The Place of Supply of Services to Non- Taxable Persons - [Summary Report](#) on the outcome of the public consultation from DG TAXUD [February-March 2005]