

# German aviation industry calls for global approach to climate policy

## Statement on the resolution by the European Parliament on Reducing the Climate Change Impact of Aviation (2005/2249 (INI))

### Coherent policy-making required to achieve a reduction in environmental pollution without placing European airlines at a disadvantage

The resolution passed by the European Parliament in July 2006 does not present a coherent policy for reducing the effects of air traffic on climate change. Rather it lists a wide range of measures, without evaluating their effects in terms of reducing environmental pollution or their economic impact. The resolution leads one to assume that the EU is prepared to condone a fundamental weakening of the European air transport industry.

The air transport sector takes its environmental responsibility seriously. It invests in research and innovation and, for economic reasons alone, strives to minimise any environmental pollution it causes. It therefore supports all suitable measures to that end. In many occasions in the past, the industry has made it clear that the primary aim of a coherent emissions mitigation strategy must be the long overdue improvement of air traffic management, the creation of adequate infrastructure and the implementation of new technologies to reduce the impact of aviation on the climate. The inclusion of air transport in a global emissions trading system under the umbrella of ICAO is seen as a supplementary option. In view of the nature of international air transport, this system must, however, have a global focus. We reject unilateral measures taken in isolation that would adversely affect the international competitiveness of European airlines. Such measures would hit carriers with the most modern fleets and limit their scope for investing in the further development of their fleets. Furthermore, they would discriminate against the European air transport industry. A thorough analysis of the possible effects of the proposed measures on the European air transport industry and on Europe as a business location as a whole is therefore essential.



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### Integration of emissions from European aviation in a global context (Consideration C of the resolution)

International EU air traffic (EU 25) accounts for 132 million metric tonnes or 0.5% of annual global CO2 emissions. We therefore share the view represented in the Communication from

the Commission<sup>1</sup> that a global approach to climate control is essential if it is to be of ecological benefit. This applies especially to the climate change impact of air transport, which has to compete in a global market whose deregulation was politically driven. The EU will be judged on the basis of its own aims.

#### **Aviation fuel tax is not a suitable instrument (Point 4 of the resolution)**

Exempting aviation fuel from taxes does not amount to subsidising this mode of transport. The justification for imposing excise duties on mineral oil is historically based on the need to finance the road transport infrastructure. Air transport is not funded via taxation, but via fees and charges. These are imposed by the infrastructure providers (airports, air traffic control) upon the users (airlines) and are ultimately paid by airline customers when they buy their ticket. The charges, which each year amount to billions, cover the costs (DIW Study 2001<sup>2</sup>). The aviation industry thus bears its infrastructure costs itself. Further taxation of aviation is neither necessary nor factually justified.

We do, however, welcome the conclusion reached by the Commission (5.3.) that the wider application of energy taxes in the aviation sector **cannot** in the short and medium term be a central pillar of the strategy to combat the impact of aviation on climate change. We share the assessment of the Commission (Point 6 of the Communication) that taxing air tickets or making additional charges will only dampen the demand for air transport services but it will not give operators any incentive to improve their environmental performance.

Modes of transport are funded in different ways. Given that fact, the repeated claims of unequal tax treatment between transport sectors are unfounded. The European Court of First Instance (ECFI)<sup>3</sup> expressly confirmed this in a case brought by Deutsche Bahn AG. The court held that air transport and rail services differ so greatly in terms of their typical activities, cost structure and underlying regulations that aviation fuel tax exemption, which is anchored in the EU directive 2003/96/EU<sup>4</sup>, is objectively justified. Furthermore, the court ruled that given the international practice of exempting aviation fuel from excise duty, which is anchored in the Chicago Convention as well as in bilateral air service agreements, competition between EU airlines and airlines from third countries would be distorted if the EU legislator were to unilaterally introduce taxation on aircraft fuel.

#### **No competitive advantages for air transport vis-à-vis other modes of transport through tax exemption (Point 6 of the resolution)**

Besides exemption from tax on aviation fuel, VAT exemption is often cited as a competitive advantage which air transport enjoys over other modes of transport. Air transport competes with other modes of transport chiefly on domestic routes. For some time now, the various transport sectors have received equal treatment, since the full VAT rate is charged on domestic flights. In virtually all other countries in the European Union, incidentally, airlines only have to pay a reduced rate of VAT (as do taxi companies in Germany) or they do not pay any VAT whatsoever.

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<sup>1</sup> Communication from the Commission "Reducing the Climate Change Impact of Aviation" 27.09.2005 (COM (2005) 459)

<sup>2</sup> External Cost of Aviation: WP4: Analysis of financial support to the aviation sector, Berlin 2001

<sup>3</sup> ECFI, Ruling of 05.04.2006, AZ: T-351/02

<sup>4</sup> Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity

For VAT to be introduced on international air routes, all bilateral air service agreements that exclude VAT would have to be renegotiated and all reciprocal agreements in which the signatory countries commit themselves to apply the same yardstick for taxation would have to be terminated. The introduction of VAT would result in traffic being shifted to third airports close to the border. Such distortions of competition cannot be the aim of the EU.

### **Effects of the proposed integration of air transport into the EU emissions trading scheme**

As a globally networked mode of transport, air transport is exposed to intensive and dynamic competition, which is characterised by high price elasticity. If intra-European air traffic were fully integrated into the EU emissions trading scheme, this would have adverse effects:

1. The cost of air transport in Europe would rise because airlines and airport operators would have to shoulder higher operating costs than their competitors in America, the Middle East and Asia.
2. Intercontinental transit traffic, e.g. from America to Asia via Europe would suffer further price disadvantages compared with flights via, for example, the Arab region. As a result, transit traffic would bypass Europe.
3. This would make other urgently needed investments in air transport infrastructure and in European industry less attractive.

Integrating air transport into an exclusively European emissions trading system would create a stand-alone solution, which would adversely affect the global competitiveness of the entire European business base. This would contradict the Lisbon Strategy, which also receives consideration in the Commission's working document "Airport capacity, efficiency and safety in Europe": *...The Commission's new start for the Lisbon Strategy aims to make Europe a more attractive place to invest and work by expanding and improving European infrastructure. ... In order to compete with the dynamic economies of Asia and North America and to attract foreign direct investments global accessibility is crucial. This function is in particular provided by the European airport sector and the aviation industry.*<sup>5</sup>

### **On specific aspects of emissions trading (Points 22, 24, 25, 33, 36, 39 and 40 of the resolution)**

An emissions trading system for aviation would have to be based on the existing system for European industry and utilise the experience gained there. The auctioning of certificates cannot therefore enter into the consideration. Nor would auctioning offer the advantages presented in the resolution. Rather it would bring great uncertainty into airline planning, since the price for the certificates is not easily calculable. By contrast, free allocation on the basis of a benchmark (comparison of specific emissions) would be a calculable and manageable approach since in selecting which allocation method to use, the dynamic growth in air traffic in recent years would have to be taken into account.

Previous measures for reducing emissions must be taken into account. The allocation method must be geared to the targets for other sectors of industry and therefore begin with the free allocation of emission rights. Here benchmarks can enable early action taken by individual airlines to be entered in the equation, not least in the interests of fair competition.

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<sup>5</sup> EU COM - Working Document "Airport capacity, efficiency and safety in Europe", Introduction, p. 1

We strongly reject the call for a special system for air transport as this would render the mechanisms for emissions trading inoperative and hinder demand-driven growth. Emissions trading can only be an effective instrument if reductions in emissions are made where they can be achieved at the lowest possible cost. This is only possible in an open system. A closed system makes no sense in the aviation industry since there are virtually no alternatives to emission-reducing measures on aircraft. And given the advanced state of the technology, further measures to avoid emissions would involve enormously high costs (for the foreseeable future kerosene is the only viable source of energy). Ultimately, a closed system for aviation would preclude the possibility of further growth in this strategically important sector. That would not make political sense.

Aviation, understandably, is not included in the Kyoto Protocol since in aviation the principle of territoriality, which is fundamental to the Kyoto Protocol, i.e. responsibility for emission-producing plants on one's own territory, does not apply. Targets cannot therefore be deduced for aviation. Targets for European industry are based on a level of industrialisation which is declining in some parts. Aviation, by contrast, is a growth sector that is of pivotal importance for further economic development in Europe and is an integral factor in European integration.

## **Conclusion**

The German air transport industry rejects any additional taxation of air traffic because taxes are the wrong regulatory means of reducing environmental pollution caused by aviation. Given the different methods of funding modes of transport, there are no grounds for the repeated claims of unequal tax treatment between modes of transport. This argument cannot therefore be used to justify the introduction of aviation taxes.

The German air transport industry fundamentally supports the efforts by the EU to prepare a global emissions trading system. However, it calls for the specific features of the aviation sector to be taken into consideration. In particular, the fact that the CO<sub>2</sub> savings potential of European air traffic is minimal in relation to the total volume of global emissions should not be overlooked. For that reason, all political decision-makers in Europe must expressly support the creation of global regulations within the framework of ICAO, without which improvements in environmental policy can scarcely be achieved. It is important that all flights departing from EU airports are included in order to substantiate the relevance of this issue, also for partner states. Furthermore only by forgoing European stand-alone solutions can negative effects on the EU air transport industry and the European Economic Area as a whole be avoided.

Berlin, den 18.09.2006