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# Aviation tax without climate benefit threatens jobs, connectivity and competitiveness

## Proposed new tax on air travel

On 5 November 2015, the government established an inquiry with the task of proposing the design of a tax on air travel. The government's stated purpose with the tax is to limit the climate impact of aviation. On 30 November 2016, the Inquiry presented its proposal. By way of this memorandum, the Swedish Air Transport Society will demonstrate why a national tax on air travel is not the right way to achieve sustainable aviation.

Ten years' ago, an aviation tax was close to being introduced despite massive opposition from airports, unions, tourism operators, regions and industry. Following a change in government in 2006, the tax was scrapped. The reason was that the tax was considered to have minimal environmental benefit while at the same time was seen to have significant negative consequences for transport, regional and industry policy. The re-hashed proposal that has now been presented contains the same problems – the tax is ineffective from a climate perspective at the same time as it threatens jobs, connectivity and Sweden's competitiveness.

Presented below are the most important reasons to stop the proposed aviation tax and what the government should do instead to contribute to sustainable aviation.

## Three reasons to stop the proposal

### 1. An aviation tax is ineffective from a climate perspective

The aim of an aviation tax is clearly outlined in the Inquiry's terms of reference – it should reduce the climate impact of aviation. However, as the inquiry itself identifies, a national tax has limited climate benefit. At best, the Inquiry calculates that the tax would reduce the total climate impact of the aviation industry by 0.2 million tons per year. This is comparable to a few days of Sweden's road traffic emissions. The Inquiry also identifies that there is a risk that the proposed tax will result in increased carbon dioxide emissions and a larger climate impact than if they tax was not introduced. This is because aviation is included in the EU's emissions trading scheme and regulated by the EU's emissions cap. A reduction in emissions in Sweden can mean that the emission permits that fall under the EU's cap can instead be used by other industries.

From a climate perspective, an aviation tax is not only ineffective, but it risks undermining the industry's own sustainable aviation initiatives. Emissions per passenger have been reduced by 20% over the past ten years and fuel consumption per passenger kilometre has been reduced by 70% over the course of the past 40 years. And the work continues. An aviation tax means the costs for airlines would increase and the opportunity to invest in new technologies and an increased use of biofuels would decrease.

## **2. An aviation tax significantly reduces connectivity**

When establishing the Inquiry, the government emphasised that an aviation tax should complement existing transport and regional policy objectives. The proposal that has been presented risks a significant reduction in connectivity and competitiveness throughout Sweden.

A national aviation tax is calculated to result in up to 1.2 million fewer passengers each year. Hardest hit would be domestic aviation resulting in fewer domestic routes with fewer departures. In 2006 when an aviation tax was being introduced, a number of routes were cancelled before the proposed tax was scrapped. As a result of fewer routes, Rygge Airport was forced to close and Værnes Airport outside Trondheim was severely affected. For those Swedish regional airports that are already fighting for survival, there remains the risk that they will have to close if an aviation tax is introduced. The smallest airports will be hardest hit.

For many people, air travel is the only realistic alternative for reaching other parts of Sweden. More than 70% of journeys between Stockholm and the north of Sweden are by air. A well developed network of aviation infrastructure throughout the country links Sweden with other parts of the world and makes possible the establishment of business and industry outside the major cities. This makes it possible for people to travel to and from work, means companies can recruit people with the right competencies, that tourism operators can grow and that people can visit friends and family. An aviation tax that reduces connectivity impacts local and regional competitiveness and works against the government's objective of developing the potential of all parts of Sweden.

## **3. An aviation tax negatively impacts the Swedish economy**

The aviation industry contributes to the Swedish economy in many different ways –as an employer and as a facilitator of trade, investment and tourism. Estimates from analysts at the consulting company WSP point to the fact that the negative consequences of an aviation tax can be significantly worse than outlined in the Inquiry's report. At the tax levels proposed, there can be up to 1.2 million fewer passengers each year and up to 7,000 jobs could be lost. The GDP loss for Sweden is expected to be close to SEK 6 billion by 2018. Controlled for the revenues that the tax is estimated to raise, there would be a net loss to Swedish GDP of close to SEK 4 billion.

The Swedish hospitality industry is particularly vulnerable to the proposed tax. Foreign visitors spend SEK 25 million every day in Sweden and in the course of the last three years more than 28 million people have chosen to visit Sweden. Access to regional airports and connections throughout Sweden are an absolute necessity for the thousands of entrepreneurs and companies operating in the hospitality industry.

Several other European countries provide evidence of the negative effects of an aviation tax. In 2008, the Netherlands introduced an aviation tax, but scrapped it the following year after Amsterdam airport lost 1.4 million passengers and the country's GDP fell by SEK 11 billion. Similar effects forced Ireland and Denmark to scrap their aviation taxes shortly after their introduction. In Portugal, plans for an aviation tax were scrapped even before its introduction. In the United Kingdom, where the primary purpose of the tax was to raise government revenues, the consulting company PwC found that the tax cost more than it raised in revenue.

## **No to an aviation tax – Yes to sustainable aviation**

A national tax on air travel will not contribute to creating sustainable aviation. At the same time, the tax risks a significant reduction in air connectivity and damaging the Swedish economy. Rather than introducing an aviation tax, the government should instead focus on efforts to develop sustainable aviation by:

- **Stimulating and investing in the development of aviation bio-fuels**

An important element in quickly reducing aviation's climate impact is a large-scale transition to fossil free fuels. Aircraft today can be filled with up to 50 per cent bio-fuel, but due to the high cost it has replaced only a small percentage of existing fuels. Policy change is required to accelerate the development of a larger market and lower prices for bio-fuels.

- **Promote cross-border measures**

Parallel with the development of fossil fuel free aviation, initiatives must be taken now to more effectively limit aviation's climate impact. The aviation industry has taken the lead in this regard. In October 2016, under the auspices of the UN's ICAO, the entire aviation sector agreed a global initiative for international aviation emissions. Under this system, a cap is placed on emissions from international aviation based on 2020 levels and airlines will then be required to purchase permits to cover any increase in emissions. Unlike a national aviation tax, this approach will mean that global emissions from the aviation industry will be significantly limited.

Work is currently underway within the EU to raise the industry's climate ambitions. This includes a review of the EU-ETS emissions cap. Together with the aviation industry, the government should work towards measures at an EU level that are competition neutral and effectively reduce the absolute level of emissions.

## **What happens now?**

The Inquiry's proposals will now go out to consultation. This will provide the opportunity for all interested stakeholders to provide their views on the proposal. If you also say 'no' to an aviation tax, but 'yes' to sustainable aviation, the consultation process is an important opportunity to share your views with the government.

Do not hesitate to contact us if you have any questions or if you would like us to share with you our knowledge and experience about how to make aviation sustainable.