Ref. Ares(2021)5339896 - 30/08/2021

TAXUD DIRECTOR GENERAL
Gerassimos THOMAS

AIRLINES FOR EUROPE

8 June 2021, time

TABLE OF CONTENT

A4E, 8 June 2021

SCENE SETTER

You have meeting with representatives from Airlines for Europe (A4E) to discuss the revision of the Energy Taxation Directive.

On their side, the participants will be:

- [redacted], Ryanair Holdings)
- [redacted] Lufthansa Group)
- [redacted], Airlines for Europe)

On 24 March 2021, Commissioner Valean met with A4E Steering Board Members. [redacted]

[redacted]

<u>Position of A4E on ETD</u>

- A4E calls for a coherent policy framework that promotes sustainability while supporting competitiveness.
- Instead, climate policy regulation in the form of sector-specific taxes, levies or bans are ecologically and economically counterproductive. They believe they reduce the aviation industry's capacity to invest and innovate whilst potentially shifting CO2 emissions to other regions.
- They stress carbon pricing is already applied to aviation through the EU Emissions Trading System (ETS), and globally through CORSIA[1]. Moreover, many airports in Europe apply differentiating fees for more polluting aircraft.
- They are against regional climate solutions / measures as it impact competitiveness, leads to losses in market share and increase risk of carbon leakage. Instead they pledge for international solution such as CORSIA.
- The drafting of regional climate measures should avoid creating competitive disadvantages and market distortions at an international level such as fuel "tankering" (transporting with extra fuel on board to avoid uptake of fuel in the EU). Proposals for a carbon border adjustment mechanism for selected

---

[1] The Carbon Offsetting and Reduction Scheme for International Aviation has been agreed in 2016 and will be the first global scheme to limit CO2 emissions from 2021 onwards.

sectors to reduce the risk of carbon leakage should take into consideration such disadvantages.

- Measures to support the development of sustainable aviation fuels have until now proven inadequate and were not sufficiently considered in the 2018 review of the revised Renewable Energy Directive. The review of the ETD could explore incentives for the production and deployment of innovative sustainable fuels instead of new forms of taxation.
- Tax incentives or other regulatory measures to stimulate investment in, and production of, sustainable aviation fuels (SAF) play an important role in developing low or zero-carbon alternatives to conventional fossil-based fuels. The 2019 evaluation of the ETD found that it did not reflect the current mix of energy products on the EU market and in particular the emergence of advanced biofuels.
- The ETD does not currently provide for the EU-wide preferential treatment of such fuels, although Member States can apply national rates that do so. As it assesses how the ETD's provisions on taxation of renewable fuels can be amended to align with the EU's energy, climate change and environment policies, and to promote the use of such fuels, the EC should consider the introduction of a tax incentive scheme for SAFs, which could be modelled on the United States' Blender's Tax Credit scheme.
- Other fiscal or financial instruments at national level could also be considered, such as a tax incentive for investors, as well as grants and co-financing of facilities with public institutions, which could reduce initial capital requirements for private actors.
- Tax incentives or credits will have a more stimulating effect on the industry's uptake of SAFs than taxing airlines or end users. In the absence of low-or zero-carbon alternatives on any significant scale, and at commercially viable prices, it is hard to see the purpose of a tax on kerosene. Subjecting jet fuel to excise duty – possibly through a removal of the exemption in the Energy Taxation Directive – will not reduce emissions from flying in the long term, whilst also to leading to distortive effects such as tankering. It is also unlikely that a fuel tax would send such a strong signal to prospective SAF producers or investors that they decide to ramp up production or investment to a scale where the fundamental challenge of limited supply and high prices will be overcome.
- A fuel tax would affect the price of and demand for air travel, at least in the short term, but it is likely that a substantial number of passengers will continue to fly. It is also likely that the viability of some businesses will be affected by incurring up to an estimated €27 billion in additional costs. A tax will under any circumstances reduce the global competitiveness of European airlines.
- A tax will also inevitably affect the economies of EU Member States, especially peripheral regions and island nations, and the mobility of EU citizens. More importantly, in the context of the European Green Deal, a fuel tax will reduce the scope for private investment in low-carbon technologies and fuels. The revenues from imposed taxes should therefore be invested in programmes that will lead to the deployment of low-carbon technologies or fuels for the aviation industry. This has not been the case in the Member States that have introduced national ticket taxes.

DEFENSIVES

The upcoming EC proposals for the review of the ETS/CORSIA, on Sustainable Aviation Fuels, on energy taxation need to guarantee the competitiveness of the European airlines

- The work on the impact assessment is ongoing. In there, we are taking into consideration different elements, notably the fact that the aviation sector has been hurt by the pandemic but also the fact that the treatment of the fuel for air transport is exempted while the fuel for other transport modes is not. Therefore, there is an argument for a more equal fiscal treatment of the different modes of transport.
- The removal of exemptions will also be considered in the context of the European Green Deal Investment Plan. The Investment Plan and the Just Transition Mechanism will contribute to address the transition needs for investment, including in the most affected areas/sector.

Guaranteeing the competitiveness of the European airlines also means exploring measures that can alleviate the risks of loss of competitiveness such as a carbon border adjustment mechanism.

- The Carbon Border Adjustment Mechanism is a climate policy instrument. It aims at reducing carbon leakage and at incentivising third country producers in specific sectors that face carbon leakage to adopt carbon friendly production processes and third countries to adopt a solid policy framework to fight climate change.
- The Carbon Border Adjustment Mechanism is a key element of the Commission's comprehensive green growth agenda and will be proposed in July 2021 as part of the 'fit for 55' policy package. This package put our commitment to increase the 2030 targets for emissions reductions to at least 55% into concrete action. It will cover in particular the review of sectorial legislation in the fields of climate, energy, transport, and taxation.
- This said, the Green Deal is more than a climate strategy - it is the new growth strategy for the EU. The Green Deal is at the core of our economic stimulus package. The investments and reforms required to prop up and strengthen our economies must help accelerate the transition toward climate-neutral and resilient societies. This is how we will boost growth, competitiveness and employment and support our labour market.

Imposing taxes without reinvesting their revenues in de-carbonization does not help effectively lower emissions from flying: it hampers connectivity without effectively contributing to aviation's sustainable transformation. It also deprives airlines from financial resources that could better be used for green investments.

- First let me stress that well-designed, environmental taxes can boost economic growth and help contribute to a fairer society and just transition. They play a direct role by sending the right price signals and providing the right incentives for sustainable behaviours by producers, users and consumers.
- As regard the review of the Energy Taxation Directive, it should preserve the capacity to generate revenues for the budgets of the Member States. It is then for the Member States to decide how they make us of their revenues.
- I also would like to recall that the EU finances a number of policies that support investments needed for the transition to a climate-neutral, green, competitive and inclusive economy. Some 37% of the spending of the RRF, for instance, will support the green transition.
- The Investment Plan and the Just Transition Mechanism will also contribute to address the transition needs for investment, including in the most affected areas/sector.

CVs

About A4E

Launched in 2016, Airlines for Europe (A4E) is Europe's largest airline association, based in Brussels. The organisation advocates on behalf of its members to help shape EU aviation policy to the benefit of consumers, ensuring a continued safe and competitive air transport market. With more than 720 million passengers carried in 2019, A4E members account for more than 70 per cent of the continent's journeys, operating more than 3,000 aircraft and generating more than EUR 130 billion in annual turnover. Members with air cargo and mail activities transport more than 5 million tons of goods each year to more than 360 destinations either by freighters or passenger aircraft. Current members include Aegean, airBaltic, Air France-KLM Group, Cargolux, easyJet, Finnair, Icelandair, International Airlines Group (IAG), Jet2.com, Lufthansa Group, Norwegian, Ryanair Holdings, Smartwings, TAP Air Portugal, TUI and Volotea.

[redacted])

[redacted]

[redacted]

ANNEXES

Annex 1 – AE4 blog post *Destination 2050: The aviation sector's response to the European Green Deal.*

Annex 2 – A4E full position paper on ETD

Annex 3 – Consolidated MOVE briefing for the meeting between Cssr Valean and A4E Steering Board in March 2021