

# Managing sustainable travel

## European aviation eco taxes

### Key themes

- **Aviation's continued growth is increasing its impact on the environment.**
- **European governments are moving closer to introducing eco taxes on aviation.**
- **Excluding transfer passengers from any departure tax risks damaging the environmental credentials of such schemes.**
- **The U.K. government, which has taxed air passenger departures since 1994, is now looking to promote carbon offsetting.**
- **KLM stands out among airlines for embracing the need to reduce air travel.**
- **IATA would prefer governments supported the development of sustainable aviation fuels rather than introduce taxes that could damage the aviation industry.**
- **Flight-shaming campaigns associated with Greta Thunberg may be having an effect on short-haul air travel in Europe.**

International environmental organization Friends of the Earth estimates aviation emissions more than doubled between 1990 and 2016, while overall emissions from all sources fell by 43%.<sup>1</sup> Low aviation taxes, a proliferation of low-cost carriers and the rise of alternative accommodation have been blamed for an air-travel boom.

The International Air Transport Association (IATA) estimates that commercial aviation is responsible for around 2% of annual

global carbon emissions.<sup>2</sup> The industry has a 2020 target to cap CO<sub>2</sub> through carbon-neutral growth, and to cut emissions in half by 2050 (compared to 2005 levels). The goals align with the 2016 Paris Agreement to limit global warming to between 1.5-2 degrees Celsius.

While the debate continues, European governments are starting to look to taxation as a way of reducing aviation's environmental impact.

<sup>1</sup> Reuters, June 20, 2019

<sup>2</sup> CNN, Environmental taxes "not the answer" for EU citizens, July 3, 2019

## Aviation tax proposals



### France plans “eco tax”

France’s Transport Ministry has unveiled plans for a new “eco tax” on all flight departures in response to ecological concerns expressed by French citizens.<sup>3</sup> The new tax is expected to raise around €180 million annually following its introduction in 2020.<sup>4</sup> Revenue from the tax will be invested in less-polluting transport, such as rail, which France already subsidizes.



The tax will only apply to passengers on departing flights. Transfer passengers are unlikely to be affected, so the environmental impact of those starting and ending their journeys outside France will not be taxed. Taxes will vary by ticket type:

- €1.50 on economy class tickets for flights within France or the EU.
- €18 on business class tickets for flights outside the EU (the United Kingdom’s post-Brexit classification is yet to be determined).

The French proposals are similar to the Air Passenger Duty (APD) already charged in the U.K.

### Germany may follow France

In Germany, airlines already pay an air travel tax, which generates annual revenue of €1.2 billion for the government.<sup>5</sup> In a recent position paper, Germany’s ruling Christian Democrat (CDU) party stated its desire to make passengers more aware of the environmental impact of air travel. It will now investigate ways taxation can be used to reduce aviation’s CO<sub>2</sub> emissions, including scrapping the tax-free status of kerosene. It will also look at introducing an aviation tax and tax-based incentives that “reward sustainable and environmentally minded behavior.”

The existing tax break on kerosene for domestic flights in Germany is estimated to be worth €570 million. But taxing kerosene in one country could simply shift travel to other countries or regions without taxes, with little effect on total emissions.

German aviation association BDL believes more needs to be done to support the development of cleaner or renewable fuel at competitive prices. Taxation may not necessarily help the climate and could disadvantage local airlines.

<sup>3</sup>[Business Travel News](#), July 13, 2019

<sup>4</sup>[Breaking Travel News](#), July 10, 2019

<sup>5</sup>Cirium, June 6, 2019



## Netherlands planning aviation tax

The Netherlands intends to introduce a new national air tax within two years, if a Europe-wide levy fails to materialize. The Dutch government has proposed the introduction of a €7.50 charge per departing passenger from the start of 2021.

Air travel is not subject to value added tax (VAT). The new tax would generate €200 million in government revenue. The government feels it is missing out on revenue, and it wants to close the gap between plane and train tickets. Given the extensive global network served from Amsterdam Schiphol, the potential to shift passengers onto rail is likely to be limited.

Ryanair has criticized the plan, arguing that it would “reward environmentally damaging, connecting flights,” which would be exempt from the scheme, while including its own flights from Eindhoven, Amsterdam and Maastricht.<sup>6</sup>

The Netherlands previously introduced an environmental aviation tax in 2008 but scrapped it a year later (during the global financial crisis).

## U.K. examines carbon offsetting

The U.K. already has a mechanism in place to manage the environmental impact of air travel: Air Passenger Duty (APD). At the time of its introduction in November 1994, offsetting the environmental impact of air travel was one of the scheme’s stated benefits. However, APD is charged per departing passenger and takes no account of the fuel efficiency of the aircraft on which they fly. It has been argued that APD should be charged per aircraft, to provide better incentives for both passengers and airlines to cut carbon emissions.<sup>7</sup> In 2011, the Government dismissed such an approach “given concerns over the legality and feasibility.”

APD is estimated to raise £3.7 billion in taxation in 2018/19.<sup>8</sup>

The U.K. government is now examining whether travel companies, including airlines, rail services, bus and coach companies and ferry operators, must offer passengers more opportunity to carbon-offset their tickets.<sup>9</sup> Transport accounted for one-third of U.K. CO<sub>2</sub> emissions in 2018.

It believes an offsetting scheme could help inform travelers about how much carbon their journey produces and give them the chance to fund schemes, like tree planting, to compensate for those emissions.



Some airlines operating in the U.K., such as Virgin Atlantic and Ryanair, already offer offsetting schemes, but passenger adoption has been low.

<sup>6</sup>[Ryanair](#), May 15, 2019

<sup>7</sup>[House of Commons Library](#), *Air passenger duty; introduction*, February 14, 2019

<sup>8</sup>[Office for Budget Responsibility](#), *Economic and Fiscal Outlook*, Cm9713, October 2018

<sup>9</sup>[FlightGlobal](#), July 22, 2019



## How the airline industry has responded



The International Civil Aviation Organization (ICAO) predicts a 3-4% annual increase in CO<sub>2</sub> emissions from aviation. While improved fuel efficiency will mitigate the environmental impact in the medium term, ICAO concedes such improvements will only “partially offset” the growth of CO<sub>2</sub> aviation emissions.

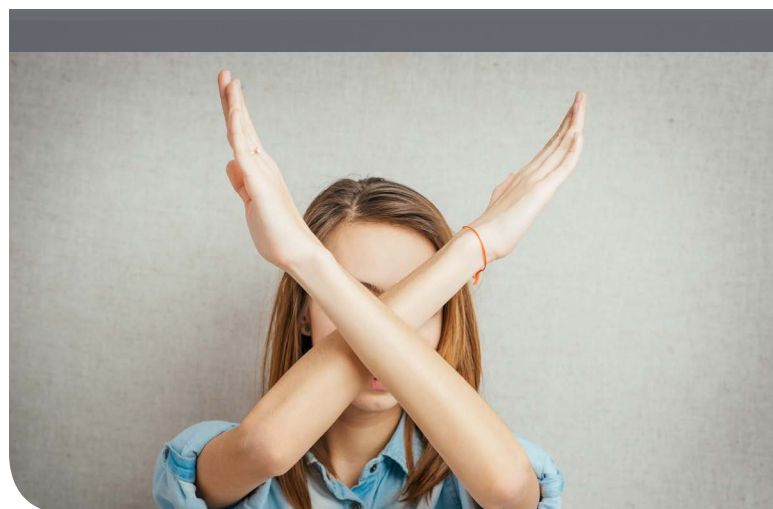
Most airlines have adopted a defensive response to their environmental impact, citing their investment in more fuel-efficient aircraft and their work towards industrywide initiatives, such as ICAO’s Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) scheme. For example, when talking about its new Airbus A350 aircraft, Scandinavian airline SAS notes the type emits 30% less CO<sub>2</sub> compared to the previous generation of aircraft.<sup>10</sup>

The increased emissions from continued air travel growth would more than offset any efficiency gains from innovation.

### Air France disapproves

Air France strongly disapproves of France’s proposed eco tax, claiming it would increase costs by around €60 million per year. It believes the new tax would penalize its competitiveness, making it harder to invest in more rapidly reducing its own environmental impact. Air France already blames subsidized competition from high-speed rail services for the poor performance of its domestic business.

Low-cost carriers operating in the French market are likely to be hit harder by the new eco tax, as it would represent a larger percentage of their average ticket price.



<sup>10</sup>SAS, June 2019 Traffic Release

## KLM promotes less travel

KLM has taken a public approach to climate change. CEO Pieter Elbers has called on other airlines to work together to ensure aviation develops sustainably. Responding to calls from IATA for airlines to tell their story more effectively, KLM launched the *Fly Responsibly* campaign, which suggests passengers might consider lower-emission alternatives to taking short-haul flights.

The campaign video encourages passengers to consider:

- Packing light
- Switching to rail or other types of transport for short distances within Europe
- Using video conferencing as an alternative to face-to-face meetings

During the first half of 2019, the number of passengers KLM carried on its short- and medium-haul flights increased by 3.4% year-over-year (YoY). Its load factor nudged up 0.4 points to 86.5%.

In June, KLM’s passengers increased by 6.3% YoY, while its load factor improved by 1.5-points to 90.2% (Figure 1). As its flights are effectively full, KLM can afford for some passengers to switch to other modes of transport.

## Environmental impact as a competitive weapon

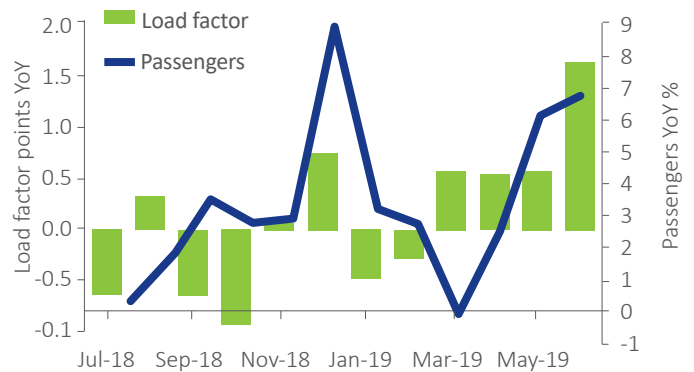
Airlines are focusing on environmental impact as a way of securing competitive advantage.

Ryanair claims to deliver the lowest CO<sub>2</sub> per passenger-kilometer in the EU airline industry. Fellow low-cost carrier Wizz Air describes itself as the greenest airline in Europe, claiming the lowest emissions.



While it’s easy to dismiss the rivalry between the two airlines, the fact that they are now using environmental impact as a competitive tool at least means they now acknowledge its growing importance in the choices consumers make.

Figure 1: KLM’s traffic performance

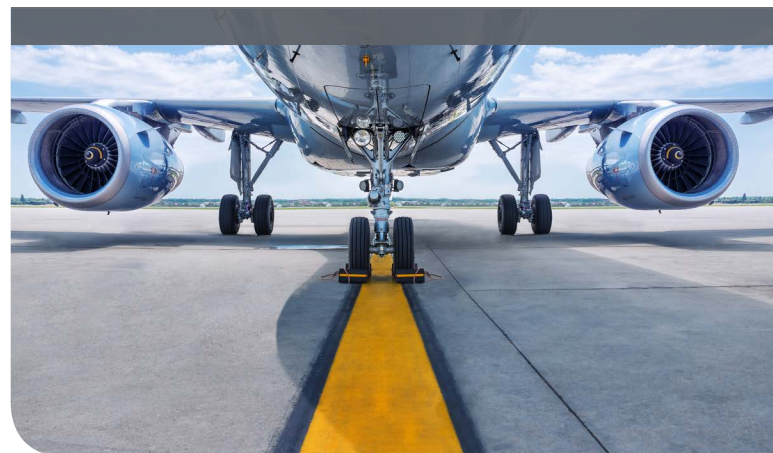


Source: Air France KLM Investor Relations

## IATA

IATA has described France’s plans for a departure tax as misguided, noting that since 1990, airlines have reduced carbon emissions per passenger by 50%, and from 2020 they will be paying to offset all the growth in emissions.<sup>11</sup> IATA claims 81% of French people do not trust the government to spend environmental taxes on environmental action. The higher cost for air travel may also jeopardize aviation’s investment in cleaner fuels and technology.

IATA’s own research suggests that environmental taxes would prove highly unpopular across Europe.<sup>12</sup> Just 22% of the people it surveyed would support such measures. IATA’s conclusion is that “people want to travel, and they value the freedom to fly.” Instead of introducing an EU-wide tax on air tickets, governments should support the development of sustainable aviation fuels (SAFs) and new technology.



<sup>11</sup>Breaking Travel News, July 10, 2019

<sup>12</sup>IATA, Environmental taxes “not the answer” for EU citizens, July 3, 2019

## The Greta Effect

IATA director general Alexander de Juniac has noted a spike in public concern about the environment following publication in 2019 of a UN report on the consequences of not meeting the Paris Agreement goals. This has been most noticeable in Northern Europe, where Sweden has given birth to “flygskam,” the act of “flight shaming” those who travel by air for their environmental impact. Growing support (across Europe) for Swedish climate change activist Greta Thunberg may be curbing demand for air travel. At Zurich Airport, protesters recently staged a “flight strike,” handing out leaflets and encouraging people to pledge not to fly in 2020.

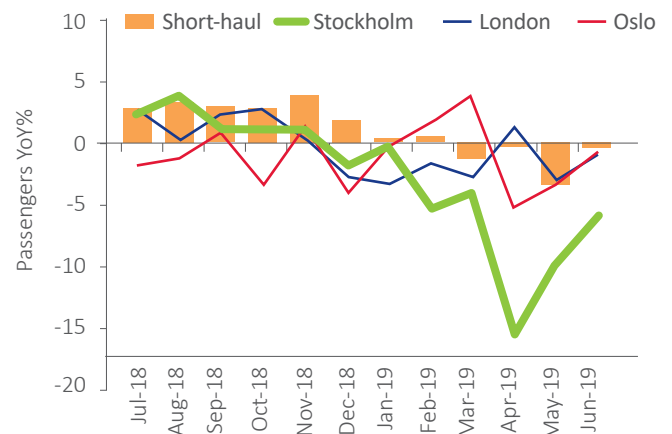
Swedish airport operator Swedavia has recently revealed seven months of falling passenger numbers. It cited flygskam as a factor.

Looking at air travel demand on selected short-haul routes to Copenhagen Kastrup airport, it’s possible to detect a downward shift on the Stockholm route since the beginning of 2019, as support for Greta’s campaign has escalated (Figure 2).

The performance of the Stockholm market has tracked below both London and Oslo since February 2019. April’s figures can be disregarded, as they were affected by five days’ of strike action by SAS. June’s figures are more revealing: While both Oslo and London recorded a 1% drop in passengers, Stockholm recorded a 7% decline. This may be the result of Swedish passengers responding to flygskam. The evidence seems compelling, but it remains to be seen whether the Greta effect will prove to be a permanent feature of Sweden’s air travel market.

Lufthansa plays down talk of a “Greta Effect,” claiming it will carry 4% more passengers in 2019.<sup>13</sup> Its CEO Carsten Spohr said the airline hasn’t been affected. “At this time, we don’t see restraint—in fact, the opposite,” said Spohr.

**Figure 2: The Greta effect on Stockholm-Copenhagen**



Source: Copenhagen Kastrup Airport

Do you have questions or comments regarding this report? Please email [Mike Eggleton](mailto:m.eggleton@bcdtravel.com) to share your thoughts.



**Mike Eggleton**  
Director  
Research and Intelligence

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<sup>13</sup>[Reuters](https://www.reuters.com), July 14, 2019