23 November 2017

Mr. Wopke Hoekstra
Minister of Finance
Ministry of Finance
Government of the Netherlands

Dear Minister,

DUTCH AIR PASSENGER TAX

The undersigned airline associations understand that, in its coalition agreement, the recently formed Dutch Government has announced its intention to address aviation's environmental impacts through taxation. The Government envisages a Europe-wide tax on aviation in the context of planned negotiations in 2019 on the "Paris climate objectives". A tax on purported "noisy and polluting" aircraft is also under consideration. The Government also foresees that, if both measures are determined to be insufficient, an aviation passenger tax may be introduced in the Netherlands as from 2021. At present, we understand that the rates considered for the aviation passenger tax are EUR 7 per departing passenger on intra-EU flights and EUR 40 per departing passenger on international long haul flights.

In this respect, we would like to direct your attention to several important issues in relation to this proposed taxation policy, including the negative impacts such a policy would have on the Dutch economy, the fact that such forms of taxation are highly inefficient and contradict accepted international law, standards and principles, and the negative experiences of other European countries that have imposed similar taxes.

These issues are detailed below for your kind consideration.

Importance of Aviation to the Dutch Economy

The aviation, travel and tourism sector plays a critical role for the Dutch economy. According to the World Travel and Tourism Council (WTTC), the total direct and indirect contribution of the travel and tourism sector represented 5.2% of total Dutch GDP (or EUR 35.9bn), 9.2% of total employment (or 677,000 jobs) and 2.8% of total investment (or EUR 3.9bn) in 2016.[1]

Over the next decade, the travel and tourism sector's contribution to Dutch GDP and total investment is forecasted to increase by 2.3% per year and 2.6% per year, respectively.[2] By 2027, the travel and tourism sector is estimated to account for 6.0% of total GDP (or EUR 47.3bn), 9.8% of total employment (or 761,000 jobs) and 3.1% of total investment (or EUR 5.4bn) in the Netherlands.[3]

As such, the significant contribution of the aviation, travel and tourism sector to the Dutch economy should be supported and nurtured, not hindered by ineffective government taxation that would undermine the growth and development noted above.

Impact of the Previous Air Passenger Tax in the Netherlands

In the context of the current proposal, it is important to highlight the negative impact the former Air Passenger Tax in the Netherlands had on air passenger volumes and the economy. The previous Air Passenger Tax, implemented in July 2008, entailed a fee of EUR 11.25 for passengers departing from Dutch airports to European destinations and a fee of EUR 45 for passengers departing from Dutch airports to intercontinental destinations.

Prior to the introduction of the tax in 2008, the Dutch Government estimated that it would generate approximately EUR 350 million per year in revenue from the Air Passenger Tax, on the basis of an analysis that indicated that passenger demand would decrease between 8% to 10% at Schiphol Airport and decrease between 11% to 13% at regional airports as a result of the tax.

However, the reality of the Air Passenger Tax once implemented was significantly different. By October 2008, easyJet announced that the tax had resulted in 200,000 fewer passengers and by November 2008, KLM estimated that the tax had cost it approximately 400,000 passengers at Schiphol Airport.[4] A study completed by SEO indicated that the loss of business for airlines, airports and tour operators in the Netherlands from the Air Passenger Tax was between approximately EUR 1.2 billion to 1.3 billion.[5] Moreover, the actual revenue generated by the Dutch Government from the tax was EUR 267 million, well below the EUR 350 million originally estimated.[6]

In the end and due to the negative impact of the tax, the Dutch Government reduced the rate of the Air Passenger Tax to zero in July 2009 and fully abolished the tax in January 2010. The experience with the implementation of the previous Air Passenger Tax highlights the negative impacts the proposed policy is likely to have.

Lessons Learnt from Similar Taxes in Other European Countries

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[1] Available at: http://www.wttc.org/research/economic-research/economic-impact-analysis/country-reports/
[2] *Ibid*
[3] Available at: http://www.wttc.org/research/economic-research/economic-impact-analysis/country-reports/
[4] Available at: http://www.kimnet.nl/sites/kimnet.nl/files/effects-of-the-air-passenger-tax.pdf
[5] *Ibid*
[6] *Ibid*

In addition to the negative experience of the previous Air Passenger Tax in the Netherlands and the contradiction with international law and principles detailed below, we would like to further highlight the negative consequences of similar air passenger ticket taxes in other European countries, notably the Air Travel Tax in Ireland and the Air Travel Levy in Austria.

Irish Air Travel Tax

The Irish Government introduced an Air Travel Tax in March 2009 at the rate of EUR 10 per passenger on all flights from Irish airports to airports situated more than 300 km from Dublin. For flights from Irish airports to airports below this limit, a reduced rate of EUR 2 applied. This two-rate scheme was changed to a uniform rate of EUR 3 applicable for all passengers in August 2011.

While the Irish Government forecasted to generate EUR 130 million annually from this tax, a study by SEO in 2009[7] concluded that the tax would in fact result in a reduction in passenger demand of between 0.5 million and 1.2 million over the first year. On this basis, the tax revenue would be between EUR 117 million and EUR 124 million, which was below the forecast of the Irish Government. More importantly, the tax was anticipated to result in a net revenue loss, as total revenue losses for airlines, airports and the tourist sector were forecasted to be in the range of EUR 210 million to EUR 465 million, depending on the price elasticities of demand assumed.

In the end, and due to the negative economic consequences of the Air Travel Tax, the Irish Government decided to cancel the tax with effect from 31 March 2014.

Austria Air Travel Levy

The Austrian Government introduced the Air Transport Levy on departing domestic and international passengers on 1 April 2011.

Following the implementation of the levy, a study by Oxford Economics[8] found that a reduction in the rates of the levy could increase annual passengers by up to 1.1 million. The same study also estimated that a complete removal of the Austrian tax would help stimulate the aviation sector by EUR 183.9 million and support 2,700 jobs. Following this, Austria took the wise decision to reduce the levy on 1 January 2013.

More recently, in an effort to increase the attractiveness of Austria as a destination, to secure an international hub function for Vienna International Airport, and to create jobs, the Austrian Government announced that it was further reducing the rates of the levy by 50% effective 1 January 2018.

Consequently, the lesson learnt by the Irish and Austrian Governments with respect to similar air passenger taxes is that the economic benefits from not overburdening the aviation sector with excessive and unjust taxation measures far outweigh the tax revenues generated by the treasury. The Netherlands should look to these examples as it considers its current proposal for a new Dutch Air Passenger Tax.

Incompatibility with International Law and Principles

It is our understanding that the objective of the proposed policy is to raise general government revenues and that it is not directly related to the cost of providing aviation or aviation-related services and/or infrastructure in the Netherlands. In particular, we note that as a tax, the associated revenues will not be directly allocated towards alleviating, preventing or mitigating demonstrated environmental damages caused by air transport.

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[7] Available at: http://www.seo.nl/en/page/article/the-implications-of-the-irish-air-travel-tax/

[8] Ref. Oxford Economics, 'The economic impact of changing the Air Transport levy in Austria', Oct 2012

We must bring to your attention that such a policy would directly contradict the Netherlands' treaty obligations and policies on taxation adopted by the International Civil Aviation Organization (ICAO), a specialized agency of the United Nations, including the following:

1. Article 15 of the Chicago Convention on International Civil Aviation, which states that: "*No fees, dues or other charges shall be imposed by any contracting States in respect solely of the right of transit over or entry into or exit from its territory of an aircraft of a contracting State or persons or property thereon*".
2. *Policies on Taxation in the Field of International Air Transport* contained in ICAO Document 8632[9], which states that "*each Contracting State shall reduce to the fullest practicable extent and make plans to eliminate as soon as its economic conditions permit all forms of taxation on the sale or use of international transport by air, including taxes on gross receipts of operators and taxes levied directly on passengers or shippers*".

The proposed taxation policy is also at odds with the principles that underlie all of ICAO's requirements regarding environmental levies, as prescribed and reiterated in several Resolutions and Policy documents, including Assembly Resolution A39-1[10], Council Resolution on Environmental Charges and Taxes[11], Council Resolution on Taxation of International Air Transport[12] and ICAO's Policies on Charges for Airports and Air Navigation Services (ICAO Doc 9082)[13].

In addition, on 6 October 2016, the 39th session of ICAO adopted a Global Market-Based Measure to address emissions from international aviation, with overwhelming support from ICAO's Member States. The scheme established by ICAO is a global carbon offsetting mechanism, called CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation). Under the scheme, aircraft operators will be required to purchase offsets, or "emission units", for the growth in CO_2 emissions above 2020 levels. The ICAO Assembly Resolution stipulates that CORSIA is to be the sole market-based measure applying to CO_2 emissions from international aviation. The Preamble of ICAO Resolution A39-3 reiterates that market-based measures should not be duplicative and international aviation CO_2 emissions should be accounted for only once.

Moreover, intra-EU flights are subject to the EU Emissions Trading Scheme, in which airlines already pay their contribution towards reducing the environmental impact.

Without the adherence to the aforementioned international treaty obligations and ICAO principles, international aviation would become overburdened by excessive and inefficient taxation, which in turn would significantly limit the economic and social benefits generated by air transport.

Addressing Aviation's Environmental Impacts in an Effective and Coherent Way

Aviation is a valuable driver of the world economy, but it is also leading the way with efforts to improve its environmental performance. It is the first industry to have ambitious global goals for reducing the climate impact of its operations, which include a cap on net aviation CO_2 emissions from 2020 (carbon-neutral growth) and the reduction in net aviation CO_2 emissions of 50% by 2050, relative to 2005 levels.

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[9] Available at: http://www.icao.int/publications/Documents/8632_3ed_en.pdf
[10] Available at: http://www.icao.int/Meetings/a38/Pages/resolutions.aspx
[11] Available at: http://www.icao.int/environmental-protection/Pages/Taxes.aspx
[12] Available at: http://www.icao.int/publications/pages/publication.aspx?docnum=8632
[13] Available at: http://www.icao.int/publications/pages/publication.aspx?docnum=9082

While the aviation industry is determined to mitigate the impact of air transport on the environment and supports cost-effective policies to that aim, the proposed taxation policy will not deliver any tangible environmental benefits. Rather than pursue this path, the Dutch Government should act consistent with the CORSIA agreement and support complementary technology, operations and infrastructure measures that will provide measurable environmental benefits.

In addition to having been endorsed by ICAO Member States at the 39th ICAO Assembly, CORSIA supports a key element of the aviation industry's climate change strategy. CORSIA will complement the technology, operations and infrastructure measures that will provide the long term solutions to ensure the sustainable growth of the aviation industry through partnership between industry and government.

As emphasized in the preamble of ICAO Assembly Resolution 39-3, Member States of ICAO and the industry strongly support a global solution for emissions from international aviation, as opposed to a patchwork of State and regional market-based measures.

IATA is extremely worried that a decision by Europe and/or the Netherlands to tax international flights will be perceived by some other States as a disavowal of CORSIA as the agreed multilateral approach. This is particularly disconcerting considering that the Dutch Government, through the participation of its experts, was instrumental in reaching an agreement on CORSIA at the 39th ICAO Assembly and is actively engaged in the work on the implementation of CORSIA.

In addition to CORSIA, the Netherlands can support investment in efficiency-based research and development in academic institutions and with joint research programmes with industry. New technology aircraft are, on average, around 20% more fuel-efficient than the models they replace. Recently, there has been a significant increase in research and innovation on new technologies, designs and aircraft configurations to reduce the environmental impact of aviation. This includes radically new long-term concepts such as electrically powered aircraft or blended wing bodies. Currently, the major manufacturers of aircraft and engines invest around $15bn per year in efficiency R&D.

Sustainable aviation fuels also present a unique opportunity to significantly reduce aviation CO_2 emissions. The Netherlands should foster policies that help support the growth in sustainable fuel deployment and promote its use for aviation, either by providing a level playing field with other uses or by prioritising its use in air transport. De-risking private investment in new (or refurbished) processing and refining production facilities can help supply aviation with cleaner fuel whilst creating new clean energy industries. Providing academic support to research into new feedstocks and production pathways could generate new ideas for sources of sustainable aviation fuels.

While the aviation industry has an extremely strong record on noise and local emissions reduction – for example, today's aircraft are 50% quieter than aircraft were just ten years ago, we have virtually eliminated smoke and carbon monoxide emissions and have constantly reduced oxides of nitrogen emissions – we are committed to further progress. The Netherlands can help support further reductions in noise and local air quality impacts through a coherent approach, compatible with ICAO's policies and international agreements. It is important to reiterate that the ICAO Balanced Approach remains the "best practice" to manage noise problems at airports and must remain the reference for addressing noise problems at Dutch airports. It provides a transparent process for managing demonstrated noise problems on an airport-by-airport basis and is based on the principle that solutions need to be tailored to the specific characteristics of the airport concerned. The ICAO Balanced Approach requires that authorities conduct a thorough assessment of the noise situation at individual airports and that they consider all available measures before introducing new noise-related measures, including noise-related levies.

In light of the above, we respectfully urge the Dutch Government not to proceed with its taxation policy. At an absolute minimum, we request that the Government undertake an independent evaluation as to the economic and environmental impacts of the policy, as well as hold an open and constructive public consultation process prior to making any final decisions.

We appreciate the opportunity to submit these comments and would be happy to meet to discuss this matter in greater detail with you.

Yours sincerely,

African Airlines Association (AFRAA)
Dr. Elijah Chingosho, Secretary General

Airlines for America (A4A)
Ms. Sharon L. Pinkerton, Senior Vice President, Legislative & Regulatory Policy

Airlines International Representation in Europe (AIRE)
Mr. Koen Vermeir, Director Aeropolitical and Industry Affairs

Arab Air Carriers Organization (AACO)
Mr Abdul Wahab Teffaha, Secretary General

Association of Asia Pacific Airlines (AAPA)
Mr. Andrew Herdman, Director General

European Regions Airline Association (ERAA)
Ms. Montserrat Barriga, Director General

International Air Transport Association (IATA)
Mr. Rafael Schvartzman, Regional Vice President, Europe

Latin American and Caribbean Air Transport Association (ALTA)
Luis Felipe de Oliveira, Executive Director

National Airlines Council of Canada (NACC)
Massimo Bergamini, President and CEO

cc. Mrs. Cora van Nieuwenhuizen, Minister of Infrastructure, Public Works and Water Management, Government of the Netherlands