# European Commission proposal to revise the Energy Taxation Directive (ETD)

**As the network of European chambers of commerce and industry, we acknowledge that the revision of specific aspects of the Energy Taxation Directive (ETD) is necessary to reflect the technological developments of the last 20 years. However, we call for balanced and effective modifications, that consider the current economic environment and the multiple crises in Europe. The revision should avoid imposing additional taxes on EU transport operators and ultimately on businesses and consumers, especially if the outcome will have no impact on reducing carbon emissions.**

## 1. Executive summary

In its first Fit For 55 package published in July 2021, the European Commission proposed a substantial revision to the ETD with the aim of bringing it in line with the EU Green Deal objectives. One of the key changes is the proposed removal of the exemption of energy tax on fuels used in the aviation and maritime industries (Articles 14 and 15).

As a result of the removal of this exemption from the ETD on use of fuels in these two industries, the cost of transportation and travel will increase, leaving a substantial negative impact on sectors of strategic importance such as tourism and all other sectors linked to it directly or indirectly, and the competitiveness of EU businesses more broadly, particularly in the current economic context of high inflation. The increase in transport costs have a higher disproportional impact on citizens and businesses located in peripheral member states, island states and island regions, with an adverse impact on economic and social cohesion in the EU.

Eurochambres acknowledges that the revision of certain aspects of the ETD are required to reflect technological developments that took place in nearly two decades since its introduction in 2003, such as to account for new energy products that currently fall outside the scope of the Directive. However, while fine-tuning where required is welcome, the revision should avoid adding taxes on EU transport operators and ultimately on businesses and consumers, particularly in the current economic climate, and especially when the outcome will have no impact on the emission reduction goals.

## 2. The current economic context

The aviation and maritime industries are two of the hardest hit industries by the Covid-19 crisis. They have shown their strategic and indispensable importance for the provision of essential supplies during the pandemic. The war in Ukraine has now further compounded supply-side and logistic issues, leading to cost increases.

The international economy is thus navigating through a deep crisis that pushes the balance sheet of operators into the red, with consequential impact on investment and employment.

Economic recovery following the pandemic has also lagged due to the war. Certainly, increasing the financial burden through taxation on operators and ultimately on consumers, is not aligned with the real economy. It is research and development and innovation rather than taxation that is required for the further greening of aviation and shipping to achieve and develop new viable technologies and fuels that have to be available in sufficient quantities worldwide.

The Covid-19 crisis has highlighted the extent of the exposure and vulnerability of these two sectors to external shocks, which is why exemptions from fossil fuel taxation were originally granted and have been maintained for many years. From a financial perspective, typically, jet fuel accounts for one quarter of an airline's total operating expenses. Thus, with many European carriers struggling to remain operational due to the Covid-19 pandemic, imposing a tax on such a critical input would have severe negative financial consequences.

### 3. Impact on economic activity

As mentioned earlier, one of the hardest sectors hit by the proposed tax measure will undoubtedly be tourism. This represents a key source of growth and job creation across many EU member states. Pre-pandemic, the EU tourism sector alone employed approximately 12 million people, representing over 5% of the EU's total workforce, and contributed towards approximately 4% of EU GDP. Nonetheless, these figures are conservative when considering that tourism in Europe is closely linked to several other economic sectors which equally benefit from tourism activity. Taking the spill-over effects into consideration, the economic impact amounts to over 10% of EU GDP and almost 12% of EU employment pre-pandemic.[1] The figures for individual EU member states varies and may even be higher.

A research report carried out by SEO Amsterdam Economics and the Royal Netherlands Aerospace Centre has estimated the cost which the ETD, and other Fit For 55 files, will place on European air travel specifically.[2]

For medium haul flights of no more than 3,000KM (both ways), the report cites an average ticket price increase estimated at €45.30 in 2030, and €62.70 in 2033. Naturally, the farther the distance, air travel becomes the only realistic means of travel. For instance, travelling from the Baltics to the Iberian Peninsula or from Scandinavia to the Mediterranean may be possible by rail or road, but these alternatives are not realistic in practice due to the time required to complete such journeys. The situation is particularly threatening for island states and island regions, which are permanently disconnected from mainland Europe with not even the possibility of using rail or road transport.

Given the energy tax is calculated on the number of gigajoules generated through the burning of aviation and maritime fuels, longer trips are naturally applied a higher energy tax due to higher fuel consumption. Such an approach will undoubtedly disproportionately impact peripheral EU member states and regions due to the geographical need to travel longer distances. Aside from disadvantages within Europe itself, the tourism product of peripheral member states may also become a less attractive proposition for tourists compared to those of non-EU destinations which do not need to abide by the Fit for 55 legislations, including the ETD. While extra-EU flights will be covered by CORSIA, the expected costs associated with this system will be lower.

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[1] European Parliament (2022), *Tourism.*
[2] SEO Amsterdam Economics & Royal Netherlands Aerospace Centre (2022), *The Price of Fit for 55.*

Businesses have started calculating how the cost increases will translate into economic terms. For instance, a report by Deloitte in Spain estimated that the EU's Fit For 55 measures targeting the aviation industry may lead to a reduction in Spain's inbound tourist figures by up to 11 million (around 9% of pre-covid numbers) which would directly result in an expenditure decrease of €12 billion. This would also threaten just under 500,000 jobs linked to tourism in Spain, as businesses attempt to make up for losses incurred.[3] On its part, Air Malta has projected a fuel price increase of 90% over the next decade, as a direct result of the proposed ETD measures, leading to higher travel costs for consumers and a loss of attractiveness of Malta's tourism product, which would be a key detriment to thousands of SMEs.[4]

The above cases are specific examples, but the impact will be felt across Europe with negative ramifications for specific communities.

It is crucial to not only consider the ETD in isolation but understand that it will operate in a context of wider EU proposals. This includes the ReFuelEU Aviation Regulation proposal which will oblige airlines to abide by higher Sustainable Aviation Fuel (SAF) blending requirements, which is significantly more expensive (and in less supply) than traditional kerosene fuel.

The objective of the EU Green Deal will ultimately be met by shifting to sustainable fuels, which will already introduce additional costs for operators. Furthermore, the aviation and maritime industries will already be paying their carbon price through the revised Emission Trading System (ETS), which will lead to its own cost increases. The revised ETD will thus only serve to further compound the issue and threaten the competitiveness of EU transport operators (especially regional ones), of manufacture companies relying on imports and exports, of the tourism sector together with other linked sectors, and contribute towards cost increases for consumers. Crucially, costs increases will also hinder transport operators' capacity to invest and innovate for greener technologies.

## 4. Aviation and maritime industries are already heavily taxed

The aviation and maritime industries already contribute substantially to the form of taxation towards national economies.

On the aviation side, airlines are faced with a proliferation of taxes, direct or indirect, notably the Belgian Boarding Tax[5], the French Aviation Eco-Tax[6], the Austrian Air Transport Levy[7] and the German Aviation Tax[8].

On their part, as intrinsically global industries, shipping and maritime operators are affected by a complexity of parameters that should not be undermined. The large number of components of a European and global network that constitute the industry pay a huge amount of corporate taxes. In addition, ships pay tonnage taxes, fees as well as port dues payable at every port of call, even when anchored outside the port area, together with other levies such as infrastructural dues payable at some ports.

[3] Euronews (2022), *Flights to Spain will get more expensive following EU changes, report finds.*
[4] Air Malta (2022), *Energy Tax Directive - The Air Malta Position*.
[5] New airplane boarding tax takes effect from 1 April (brusselstimes.com)
[6] French Eco Tax (Scope, Tax Rates and Legal Obligations) (fccaviation.com)
[7] FlugAbgG en Konsolidiert 201029 (bmf.gv.at)
[8] Customs online - Aviation tax (zoll.de)

## 5. Conclusion

Eurochambres reiterates that the aviation and maritime industries have a strategic role for the EU's economic resilience, with additional importance for businesses and citizens located in peripheral EU member states. It is crucial that operators continue providing services at a price that is competitive and affordable.

These industries already contribute taxes in different forms to national systems and should not be overloaded with further financial burdens, particularly at this time of international economic crisis. The aviation and maritime industries must continue reducing greenhouse gas emissions through RDI and enabling the right conditions for private investment in green technologies. More taxation is not the way of achieving this.

While remaining fully committed to the EU's green deal objectives, having considered the issues above, Eurochambres calls on the deletion of Articles 14 and 15 from the revision of the Energy Tax Directive and to retain the current exemption of taxation on the use of kerosene fuel by the aviation and maritime sectors.

Eurochambres, the Association of European Chambers of Commerce and Industry represents over 20 million businesses in Europe through 45 members (43 national associations of chambers of commerce and industry and two transnational chamber organisations) and a European network of 1700 regional and local chambers. More than 93% of these businesses are small and medium sized enterprises (SMEs).

More info and previous positions on: https://bit.ly/ECHPositions

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