

**EUROPEAN AVIATION INDUSTRY JOINT STATEMENT
on the EC Consultation on the
'Preparation of an Impact Assessment on the Internalisation of External Costs'**

18 January, 2008

The European aviation industry has noted that the EC wish to develop a system institutionalising the 'polluter pays' and 'end user pays the full cost including societal costs' principles with a view to devising a charging system for application to all modes of transport and their users.

What follows constitutes a joint submission by Europe's air transport associations representing the entire industry of network, regional, no-frills, scheduled and leisure carriers, passenger and all-cargo operators. As associations representing the interests of our respective members it is our aim to promote a sustainable air transport sector which we believe is also an inherent objective of the Lisbon Agenda. It is our concern that the Commission proposal to internalise external costs in a simplistic and one-sided way for the air transport sector will jeopardise this objective, bringing a significant cost burden to an industry already faced with major challenges.

We have chosen not to respond with the on-line questionnaire as we question the validity of this approach as a means of public consultation. We do not consider it to be the most appropriate way of addressing the complexity of the topic, and we are concerned that answers given in this manner could be non-representative, could be misinterpreted and misdirect the debate on policy.

In this submission, we highlight our specific concerns about the motivation for the proposal, the methodology and design elements taken into consideration, and the feasibility of arriving at a fair and equitable outcome.

1. This proposal fails the Commission's own better regulation principle, with no explicit and clearly defined policy objective, and it will undermine the objectives of the EU's Lisbon Agenda for achieving a globally competitive, sustainable and healthy European economy.

1.1 Transport is only one industry with externalities and should not be singled out for the application of 'internalisation of external costs'

Transport is only **one of many industries** that generate external costs, and benefit society. Other obvious major examples are power generation (particularly fossil-fuelled and nuclear), construction, and the production of chemicals, but the overall list includes most major business activities. All economic activities are intrinsically linked, where serving the interests of one group is inherently detrimental to others.

The proposal puts forward the 'polluter pays principle' (PPP) and the 'end user pays the full cost including societal costs'. There is no justification for singling out transport for the application of these principles. If the initiative is to be adopted, the principles should have a much broader application as a cross-industry measure.

1.2 The impact assessment should take into account the benefits the transport sector brings to the economy and the objectives of the Lisbon Agenda.

The better regulation agenda of the Commission requires that each new proposed regulation be accompanied by a detailed impact assessment. Any impact assessment must take into account both the external **costs and the benefits** which transport bring to our economies. Whilst there are no doubt some externalities associated with each mode of transport, there are also many benefits.

Transport is essential for the economy, creating jobs and opening up new market opportunities. It moves people and products quickly over long distances enabling economic and social participation by outlying communities. Transport is a major employer and is directly linked to the tourism industry. The WTTC calculates that the travel and tourism industry generated EUR 1.9 trillion of economic activity in Europe in 2006, contributing 3.8% of European GDP and providing employment to 11.5 million people. Including all auxiliary activities these figures rise to 10.8% of economic GDP and 34 million jobs respectively.

INFRAS estimates the cost of internalising external costs for transport alone would cost the sector EUR 650 billion annually, or 7.3% of total GDP. While road traffic accounts for 84% of that bill, air transport would still face a cost of EUR 90 billion per year, or 45 times the profit achieved in a 'good' year. The Commission should therefore also consider whether this regulation would not be in contradiction with its own Lisbon Agenda objectives, aimed at promoting economic growth, sustainable employment and establishing Europe as a strong world economy.

1.3 The default application of the Polluter Pays Principle pre-judges the outcome of any Impact Assessment, and the best economic choice to address externalities.

By seeking to apply the 'polluter pays principle' the Commission has already pre-judged who should pay for any externalities. It is a well recognized fact that by putting in place the long-promised Single European Sky that will reduce route inefficiencies and unnecessary flying in holding pattern or deviations, a potential fuel burn saving of 6-12% and associated reduction in air pollution could be achieved. Yet the decision to make the Single Sky a reality lies entirely in hands of politicians. The 'polluter pays principle' should not be applied in such cases. Indeed, current economic theory fully recognizes the **limitation of this principle** as not necessarily presenting the best economic choice.

2. The air transport industry questions the justification of a policy for the internalization of external costs and the ability to arrive at an equitable charging system based on the proposed design elements.

2.1 The industry has many questions concerning the underlying justification for the proposed application of the 'internalisation of external costs' to transport.

It is not sufficient to state, as the consultation does, that 'for many years the Commission has been advocating the need to internalise the external costs of transport'. The repeated statement of a policy which has not been justified does not provide any greater **justification** for that policy.

It is also inadequate to state that 'the high and growing proportion of the external costs of transport endanger its sustainability, which calls for policy actions'. Even if this statement is true, the correct policy actions do not necessarily include the internalisation of external costs. Other policy actions may be more effective, more beneficial or both.

It is therefore essential that the Impact Assessment includes an evaluation of **alternative policy options**, including both regulatory options (such as emissions trading) and **non-regulatory options**.

2.2 Subsidies and the cost of Infrastructure provision must be taken into account in the Impact Assessment. If not, the 'internalisation of external costs' principle will be seen as a misuse of policy to impose a modal shift.

An important part of the PPP system is the elimination of **subsidies** which distort the true price setting. This is a practice which is prevalent in Europe's railways, yet the tabled proposal fails to take this important element into account. It is a well known fact that whereas rail and urban transit systems are heavily subsidised, aviation is a net contributor to the economy. In the United Kingdom, for example, rail represents a net cost to the taxpayer of EUR 2.4 per journey, whereas an air passenger makes a net contribution of EUR 4.6 per journey.

The **cost of infrastructure**, investment and operating costs, is not taken into account in the proposal either. Air passengers generally pay higher taxes and infrastructure charges than any other mode. The European Environment Agency in a recent study calculated that of the EUR 156 billion state subsidies for infrastructure development awarded to transport, 70% went to road transport, 24% to rail with the remainder going to 'water'. Air transport receives no support in financing its infrastructure.

Subsidies and infrastructure provision should be taken into consideration in the Commission's proposal on internalisation of external costs, and in its impact assessment. Not to do so, could be seen as a misuse of regulatory measures to impose changes in the modal split, which would not have happened under normal economic conditions.

This would also be the case if the proposal is introduced according to the suggested 'stepwise' implementation, whereby one mode of transport may be subjected to the charging system before another.

2.3 Existing levies should be taken into account, and there should be a clear identification of planned use of revenues.

The High Level Group which reported to the European Parliament in 2000 on the issue of marginal social cost pricing for transport infrastructure, taking into account safety, environment and other external costs, concluded that 'the aviation sector is probably the sector of transport with the most advanced and sophisticated charging instruments most able to reflect marginal social infrastructure use costs'.

Indeed aviation is one of the most regulated transport modes, not just at European level, but at worldwide level. There are already in place initiatives to deal with issue of local air quality and noise. A draft EC Directive is currently under political debate to include aviation in the European Emissions Trading Scheme within the next 5 years. In the meanwhile there have been many local government initiatives to address the external cost of aviation on the environment. A notable case is the UK's Air Passenger Duty (APD) currently levied on departing passengers. DETR research has shown that the known environmental cost per passenger lies at between GBP 2.18 and GBP 3.30 for a short haul flight and GBP 18.05 and GBP 20.24 for a long haul flight. These figures are already surpassed by the APD charge which currently stands at GBP 10-20 and GBP 40-80 depending on class of service. Similarly passengers flying from the Netherlands have an environmental ticket tax imposed of EUR 11.25 for destinations with a distance of less than 2,500 km, and EUR 45 for all destinations.

It is therefore important that any proposal take into account all existing charges, levies and measures to address externalities to **avoid duplication**.

The need to avoid duplication of measures cannot be underestimated. The airline sector was deeply dismayed that, at the 15 March workshop on this issue, the Commission stated that 'ETS cannot be regarded as internalisation', and that the use of this measure is only 'political'. It was consequently reassuring to hear Mrs Houtman clarify, during a meeting with stakeholders on 10 January, that, given the significant cost implication ETS will have for our industry, the introduction of ETS for aviation would indeed constitute adequate reflection of emissions-related external costs.

Furthermore, the proposal does not clarify in what way revenues raised from the project will be utilised. Again this should not lead to cross-model financing. Any **revenues should be earmarked** and used to finance projects to decrease the external costs of the mode of transport from which those revenues are collected. Nor should it be allowed that the revenues feed government general funds with no clear account of abatement measures taken to offset the externalities which provide the funds.

2.4 Air transport is an international business, facing competition from international competitors operating into Europe from regions beyond the European Union.

Air transport is an international business which competes with international companies. It is clear that, as with ETS, the application of a regional system to a global industry puts the home industry at a **competitive disadvantage**. A European carrier's entire network would be subject to such a charge, whilst for non-European

carriers only selected routes are affected. There are also associated difficulties in enforcing a charging system on non-European players, with threats of diplomatic incidents and trade wars.

2.5 There is no consensus on the cost of externalities in empirical research.

Furthermore the Commission wishes to determine its charging system based on existing empirical research. The overview of this research presented by CE Delft on behalf of the Commission merely serves as proof that there is no consensus on what constitutes a correct level. For example, the cost of 'air pollution' for air transport ranges from EUR 119 to EUR 631 per aircraft-km for passenger services and the cost of 'noise' from EUR 150 to EUR 1200. It is thus not clear how such **broad ranging cost estimates** could be translated into a single applicable figure, even if justified.

Conclusion

Different modes of transportation provide differing benefits to consumers, and are governed by completely different regulatory regimes. Given these differences, a 'one-size-fits-all' methodology, as conceived by the Commission, must evaluate all sector-specific costs and benefits. If the Commission were to arbitrarily exclude selected aspects from this methodology, it would have failed to achieve its stated objective of 'identifying all external costs and means of internalising them'. Rather than providing a tool to enhance transparency for the consumer, the Commission would have delivered a means to achieve any given political objective. Thus to ensure a meaningful result, it is essential that any impact assessment is conducted against explicit and clearly defined objectives.

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